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# Sarawak Snaps back

K. Das' article about Sarawak [**Snap, crackle and pop**, REVIEW, July 21] has shaken my faith in the REVIEW's ability to give me accurate and reliable information. It is riddled with inaccuracies, and its most trenchant piece of analysis is based on a false premise.

For the record: Datuk Taib Mahmud is not a Malay. His people, the Melanaus, are as indigenous as the Dayaks. The statements that "the Snap [Sarawak National Party] challengers are well aware that Taib, who heads the PBB [Parti Pesaka Bumiputra Bersatu] is very much a bumiputra in the broadest sense, being a Malay" and "they also concede that he, unlike his predecessor, is sensitive to Dayak aspirations" are open to a number of interpretations. One could be that Abdul Rahman Yakub (Taib's uncle) was not sensitive to Dayak aspirations when he was the chief minister. This is utterly wrong, because Rahman has been fair to the Dayaks.

For instance, when he formed the first coalition government in 1970, he appointed two ministers out of nine legislators and one political secretary from Party Pesaka Anak Sarawak. Four years later, after the 1974 elections, though only three Dayak candidates from PBB (a merger of Pesaka Anak Sarawak and Parti Bumiputra Sarawak) were returned, two were appointed full ministers. One of them has since been appointed the speaker of the State Assembly. After the last election one more Dayak was made an assistant minister. The implication that the Dayaks are pitted against the Malays is a very dangerous idea to toy with. Only anti-Malaysian elements harbour this feeling.

The challengers' attack on Snap's leadership is not necessarily an attack on how the state government is made up. The challengers were National Front candidates and won on its ticket. Nor did they defy the prime minister's general directive forbidding any member of component parties to campaign against official front candidates. They merely questioned the decision of Datuk James Wong in not fielding three of their veteran leaders. Instead Wong recommended his own men. When the list was presented to the top National Front leaders they had no option but to endorse Wong's nominees in the hope that they would fare well. There was no time to haggle over a few names among the hundreds of candidates.

The expulsion of Daniel Tajem from Snap was decided upon before June 19. If anything, the memorandum of June 16 was a bonus to those who had already made up their minds. Although they had formed a committee purportedly to find out the truth of the allegations against Tajem, the committee's report, which took several months to compile, was not even discussed at Snap's executive committee — a denial of natural justice.

Neither Wong nor Edward Jeli were founder members of Snap in 1961, as Das states. Wong stood and won as an independent in 1963 elections. Stephen Kalong Ningkan was dethroned as chief minister by a vote of no confidence in the State Assembly; he was not dismissed by the federal government as Das asserts.

The statement that "Tajem and his supporters argue that if the Dayaks are not given a proper place in politics, some of them may begin looking to the communists for help" has sinister connotations. Almost all the communists, or what is left of them, are Chinese. It is therefore illogical to suggest that the Dayaks would turn to them; to work with the non-communist Chinese was bad enough for Tajem's men.

The crisis has been largely solved with the formation of the new Dayak party. Out of 16 Snap state legislators 10, plus one independent, have joined the Dayak party — that is not "half" where I come from. Out of the nine parliamentarians belonging to Snap, seven have left to join the new party. My prediction is that Taib and his colleagues in PBB together with the Sarawak United People's Party will support the Dayak party to guarantee political stability.

*Kuching* 'SUBSCRIBER'

I must congratulate Das for attempting to interpret the complex ethnic politics of Sarawak. However, in trying to interpret and explain the current crisis within Snap, Das committed a number of factual errors which influenced his interpretation of events.

His categorisation of Sarawak's population into three main racial/ethnic groups, Dayaks, Chinese and Malays, is at best an oversimplification of the complex ethnic composition of the state's population. Also, his attempt to reduce the complexity of Sarawak ethnic politics to a more comprehensible level, similar to that of Peninsular Malaysia, traps him into misinterpreting the situation.

PBB has never been known as a Dayak party, nor has it been largely supported by Dayaks, as claimed by Das. Das seems to mix up PBB with Parti Pesaka which merged with Parti Bumiputra to form the PBB; the latter is a predominantly Malay/Melanau party.

The crisis in Snap was purely an internal affair of the party; a conflict between two

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factions for the control of the party machinery. It had nothing to do with the desire of the Dayaks (rightly, Ibans) to challenge the state leadership of Taib, nor does it reflect the desire of the majority of the members that "Snap governs the state in its own right."

Das completely misses the essence of the problem when he asserts: "The rebels in Snap claim that the Dayaks have increasingly been deprived of the fruits of development." Whether or not the Dayaks are being deprived of the fruits of development is not an issue.

*Honolulu* 'INFORMED OBSERVER'

Das errs in speculating that the Dayaks aimed at wresting the mantle of power from Taib, who is a reasonable leader respected by the people of Sarawak, including the Dayaks. Even if the Dayaks aspired to hold the top job in the state (not an unreasonable ambition), the reason would not be because they settled in Sarawak earlier than the Malays, as Das claimed, as there is evidence to the contrary, but because of their combined numerical significance, being the largest group in Sarawak. Although the first two chief ministers were Ibans (Dayaks), a Dayak chief minister is unlikely to emerge at the moment because the Dayaks are divided among various political parties instead of uniting under one strong political group to form a dominant force.

The final outcome of the crisis in Snap is likely to have vital significance on the overall economic development and political climate in Malaysia's biggest state because the crisis has a direct bearing on the appointment of cabinet members to formulate and implement the policies of the executive branch of government.

The heart of the crisis was Snap's failure, under the tentative leadership of Wong, to recognise the legitimate aspirations of the majority of its supporters, the Dayaks, who often see themselves as a disinherited people in a country where the Chinese control the commercial life while the Malays control the political sphere. A party headed by a non-Dayak cannot be expected to champion the dear cause of the Dayak people from whom at least 90% of its supporters are drawn.

*Cambridge, England* LUBON TIGONG

Das' assertion that Taib "is not capable of tough action" is unfounded, misleading and provocative. True, his style is not that of a matador who rushes blindly into the arena and grabs the bull by the horns. Instead, his is a mature leadership which encourages debates and discussions before a collective decision is taken.

During the Snap crisis it would have been extremely unsound politically for the chief minister to make any hasty decision. It was critical to exercise restraint.

*Kabu, Sarawak* CHONG GUAN CHOCK

Party's rebels who, according to your story, now proclaim to be carrying on where Sarawak's first chief minister, Ningkan, left off are, in so doing, at complete odds with Ningkan. Ningkan has publicly disowned the rebels as troublemakers on not a few occasions.

*Kuching* 'J. H. K.'

● *K. Das replies: Those who have jumped to Taib's defence do not realise that there was no attack. All I maintained was that Taib is not capable of tough action of the kind used in Sarawak and Sabah previously, when chief ministers have organised the detention of opposition politicians without trial under the Internal Security Act.*

*One writer claims that I made out PBB to be a largely Dayak-supported party. What I said was that PBB and Snap together have large Dayak support. The fact remains that if Dayak support were withdrawn, PBB would face serious trouble.*

*The composition of the indigenous communities of Sarawak is irrelevant. It is a fact that there are more than a dozen identifiable ethnic groups, but nevertheless the new indigenous party calls itself Parti Bangsa Dayak Sarawak, or the Sarawak Dayak Race Party, indicating how the local people and political leadership see themselves. Now, with Snap's MPs and state assemblymen slowly drifting into the orbit of the new party, it could indeed become a major force, and possibly even overshadow PBB. Any strong shift by the Dayaks towards the new party could mean a change in state leadership. It must not be forgotten that the Dayak leaders in Snap were quite blunt in their request for a Dayak leader for the party. It would be naive to think that the Snap rebels who have moved away to form a Dayak party so successfully will stop short of trying to grab the chief ministership.*

## Malaysian model

While it is a great pity that the Sri Lankan riots happened at all, an acceptable solution to the problem of the Sinhalese and the Tamils must be found quickly.

Despite language and religious differences these two communities are ethnically related. In fact they are so intermixed that Sinhalese settlers in the north have, to all intents and purposes, become Tamils and Tamils in various parts of the south, in the same way, have become Sinhalese. There are few Sinhalese without some Tamil blood and vice versa.

A federal system of government might provide a reasonable answer; the country is already divided into provinces, each of which, I understand, is larger than a state in Peninsular Malaysia. In Malaysia each state has a ruler, a chief minister, an elected state legislative council and a state constitution. The council passes state laws and each state collects and retains certain revenues and taxes.

Perhaps a joint Sinhalese-Tamil study group should look at the Malaysian system and see if it can be implemented in Sri Lanka. Under such a structure each Tamil province would have a legislative council of its own and the Sinhalese provinces would be similarly constituted. Colombo would be the federal capital.

*Seremban, Malaysia* N. RAMACHANDRAN


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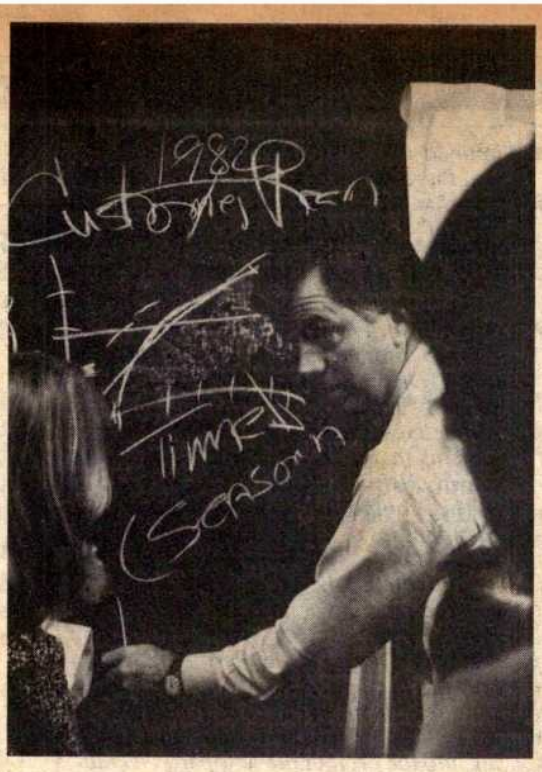

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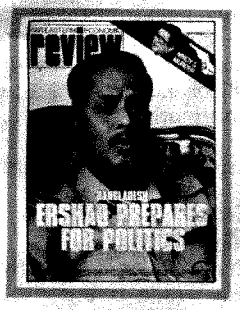


**Governments seem to come and go in Bangladesh — often ending tragically in either coup or assassination. But chief martial-law administrator Lieut-Gen. H. M. Ershad has pledged that he will make a peaceful, orderly transition to democratic rule. And for once it seems that a military ruler may succeed in this aim. For Ershad is already popular among the masses and he is increasing this popularity by constant tours in the countryside and by pushing on with his master-plan for decentralisation of government. Diplomatic correspondent Nayan Chanda reports on the military's march to democracy (*page 21*). Chanda and Dhaka correspondent S. Kamaluddin interview Ershad (*page 24*). And Kamaluddin reports on the military's past role in politics (*page 28*).**

**Cover photo: Nayan Chanda**

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**As crowds wait to greet former senator Benigno Aquino on his return to Manila from three years' exile in the United States, he is gunned down at point-blank range seconds after stepping from the aircraft. His death causes shock nationally and internationally, and leaves a host of unanswered questions.**

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**Malaysian Prime Minister Datuk Seri Mahathir Mohamad's plea for team spirit backfires badly at his party's annual assembly.**

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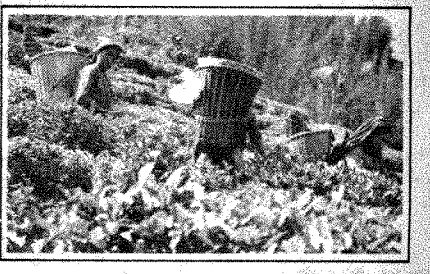
**Major policy changes are necessary to beat the energy bogy for ever.**



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**India makes further efforts to gain bigger export markets for tea.**

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**China tries a new financing method for overseas ship sales.**

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**A Hongkong ship's voyage to nowhere with a cargo of nothing causes a stir.**

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## REGIONAL

### Seoul sentences Chinese hijackers

Six Chinese who hijacked an airliner to South Korea in May have been jailed by the Seoul District Criminal Court. Despite defence arguments that they were mainly political exiles seeking freedom from communist rule, the court convicted all six on most of the charges stemming from the hijacking and the use of illegal firearms.

The sentences — from four to six years — provoked sharp criticism from officials in Peking, who said they were too light. But the hijackers and their lawyers said they would appeal.

Meanwhile, the Defence Ministry said that Sun Tien-chin, a mainland Chinese air force test pilot who flew to Seoul on August 7 in his MiG21 fighter, will shortly be turned over to Taiwan in accordance with his wish.

— SHIM JAE HOON

### Servants return to Shanghai

Busy Shanghainese can now secure household domestic help through service agencies run by neighbourhood committees. A Xinhua newsagency report said that many of Shanghai's 11 million people have little free time to care for aged parents, look after children or attend to household tasks such as shopping and mending. A new household-service agency, begun three months ago in the Xiaobeimen district, is "saving residents the time-consuming chore of conducting private searches for helpers through personal recommendations."

The report said that full-time housekeepers looking after a child earn Rmb 20-25 (US$10-12.50) per month. Part-time domestic help can be had for as little as Rmb 3-4 per month.

— ROBERT DELFS

### New man for key Sri Lanka post

Gen. Sepala Attygalle, commander of the Sri Lankan army from 1967 to 1977, has been appointed to the key position of secretary of the Defence Ministry. The defence portfolio is held by President Junius Jayewardene.

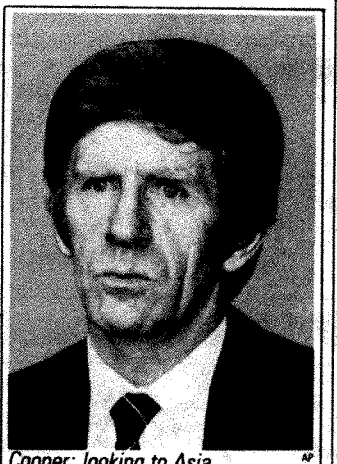
Attygalle's appointment comes as both the police and the armed forces are seeking to maintain law and order in the wake of the July riots directed against minority Tamils. Accusations that the forces did nothing to stop looters and arsonists at the height of the violence have been freely voiced at home and abroad.

The position of secretary of the Defence Ministry acquires increased importance in view of the need to shake up the armed forces and to improve their morale. Observers here note that the government has openly alleged that some disloyal elements in the forces had planned to take over the country.

— MANIK de SILVA

### Wellington to take more Asean students

New Zealand will soon accept more students from Asean countries. According to Foreign Minister Warren Cooper, Wellington will make more places available, at both secondary and tertiary levels, to students from Asean countries on a preferential basis. To attract more Asean students, fees are likely to be competitive with education costs in Australia and North America.



*Cooper: looking to Asia.* AP

In the 1950s and 1960s, New Zealand accepted Colombo Plan students from a wide range of Asian and African countries. By the mid-1970s, however, Wellington had shifted its development assistance emphasis to the South Pacific and Asean. Preferential placing of fee-paying students from Asean is a reflection therefore of New Zealand's foreign-policy priorities.

— JAMES CLAD

## BUSINESS

### China signs oil contracts with Esso and Shell

Esso China and Shell Exploration China have signed contracts to explore two offshore blocks totalling 5,120 sq. kms in the Pearl River basin — the third lot of concessions awarded to foreign oil companies by the China National Offshore Oil Corp. (CNOOC) in the current round of bidding.

Esso China, a subsidiary of Exxon Corp. of the United States and Shell China, a subsidiary of the Shell group have an equal interest in the joint exploration, with Esso as the operator for both offshore blocks. In August 1982, CNOOC invited foreign interests to bid for 43 tracts totalling 150,000 sq. kms in the South China and Yellow seas. Esso and Shell are said to have put up bids for five blocks.

CNOOC, Japan National Oil Corp. (JNOC) and Idemitsu Oil Development Corp., also of Japan, will sign offshore-exploration contracts early this month, according to newsagency reports. JNOC is already drilling in two much larger blocks (totalling 25,500 sq. kms) in central and southern Bohai. Its exploration contracts with China were signed in 1981 outside the current bidding process.

— TERESA MA

### Suharto predicts moderate growth

President Suharto, in his annual state-of-the-nation address to parliament, projected Indonesia's gross domestic product growth would average 5% during Repelita IV — the fourth five-year plan which is scheduled to begin next year. This would be above the disappointing 2.25% rate recorded in 1982 but lower than the 8% average for 1977-81. The emphasis during Repelita IV will be on rectifying the imbalance in the country's current economic structure, which is still dominated by agriculture, Suharto said. Industrial growth is projected at 9.5% a year, with agriculture at 3% a year.

To fund growth, Suharto emphasised, there is a need to mobilise more domestic resources. The recent bank-liberalisation measures, allowing state banks to set their own deposit rates to attract more savings, was a step in this direction, he said. The government will soon come out with tax reforms to reduce its dependence on tax revenues from the petroleum sector. But increasing amounts of foreign exchange will still be needed and aside from promoting non-oil exports, tourism will be further emphasised

— MANGGI HABIR

### Top British mission to visit Malaysia

The chairman of the British Overseas Trade Board, Lord Jellicoe, will lead a high-powered mission of 10 British businessmen and bankers to Malaysia in October. The team will include chairmen or top executives of Lloyd's Bank, Thorn EMI, Hawker Siddeley International, Ferranti Computer Systems, Morgan Grenfell and Co., Rank Xerox, Metal Box and Rolls Royce, as well as of the Commonwealth Development Corp.

Lord Jellicoe will be in Malaysia for the first week of October and will pay special attention to the transfer of technology and investment opportunities in engineering, computer systems, electronics, agriculture and power generation. It is understood the mission will try to meet Prime Minister Datuk Seri Mahathir Mohamad.

— K. DAS

### Hongkong and Canada fail to agree on textiles

Talks between Canadian and Hongkong trade officials on proposed measures to restrict Hongkong textile exports to Canada have adjourned without results. The Canadian delegation is requesting elimination of the flexibility provision, which allows the transfer of quotas for various categories of textile exports. Canada is also asking for orderly marketing arrangements which means putting a limit on Hongkong's textile exports for each quarter.

The Hongkong representatives told the Canadians the proposals are unacceptable. Hongkong, the second-largest supplier of textile goods to Canada, signed a five-year memorandum of understanding on textile export quotas under the Multi-Fibre Arrangement in 1982.

— TERESA MA

# INTELLIGENCE

## PREPARING REPAIRS

The leader of Thailand's industry-based Chart Thai party, Maj.-Gen. Pramarn Adireksarn, has held preliminary talks with South Korea's Hyundai and Daewoo trading and industrial conglomerates on a possible joint venture to build a ship-repair yard at Laem Chabang on Thailand's eastern seaboard. No conclusion has yet been reached in the talks, which were held during a private visit to Seoul by Pramarn in mid-August. The Thais are envisaging a US$100 million project capable of repairing ships of 6-20,000 tonnes.

## SUMMIT BELOW THE PEAK

Luce

A British mini-summit on Hongkong's future will be held in the territory in late September, following the next round of Sino-British talks in Peking on the same subject. Britain's chief negotiator at the Peking negotiations, Ambassador to China Sir Percy Cradock, and Hongkong Governor Sir Edward Youde, also a member of the delegation, will confer with Foreign Office Minister of State Richard Luce, who will pay a brief visit to the territory. The next round of the Peking talks is due on September 22-23.

## CLASS CONSCIOUS

Indonesian military leaders are rejecting out of hand speculation that they are planning to suspend classes at Seskoad, the army staff and command school in Bandung, for one year. According to Western diplomats in Jakarta, there is a feeling among certain senior officers that mid-career officers attending the Seskoad course come away imbued with too much instruction in Pancasila, the five-point state philosophy, and with insufficient practical knowledge of military matters. Senior officers deny this is their feeling but say the course may be lengthened, presumably to give additional instruction in purely military matters.

## PASSING THE HAT

Some foreign banks in Sri Lanka which have been asked to contribute to a rehabilitation fund set up by the government to repair the damage caused by the July violence (*page 88*) would prefer a compulsory levy. American bankers are particularly reluctant to make donations, feeling that contributions to the fund would create a precedent and put them in a difficult position if they declined to make similar contributions to other Third World countries hit by disaster. However, Bank of Credit and Commerce International has pledged Rs 5 million (US$208,000) and Grindlays has paid Rs 1 million.

## SALVAGE SALE

In a further illustration of the problems afflicting the Hongkong property market, Redhill, an unfinished luxury residential development on Hongkong Island, is up for sale. A sale price of at best HK$300 million (US$40 million) compares with an original purchase price of HK$1.3 billion. The move was made by creditors of Vermillion Land, a cash-strapped development consortium in which Hongkong Land, the territory's largest property concern, has a 40% stake. The sale is an attempt to salvage something from the 134,990-sq. m. site where a number of contractors are still owed money. One option which has been considered is for Vermillion to walk away from the site. The building covenant expires in 1986 after which, if no work is in progress, the Hongkong Government must re-enter the site.

# THE WEEK

### AFGHANISTAN

Afghan authorities said that they had freed an irrigation dam southeast of Kabul from guerilla control, Kabul Radio reported (*Aug. 17*).

### BURMA

The former home and religious affairs minister, Bo Ni, was charged with misuse of government funds, the official News Agency Burma reported (*Aug. 23*).

### CHINA

Ji Pengfei was appointed chief spokesman on Hongkong and Macau affairs, it was announced (*Aug. 17*). General Secretary Hu Yaobang met Italian communist leader Enrico Berlinguer in Nanjing (*Aug. 19*).

### INDIA

More than 500 Muslims staged a protest outside the United States Embassy in New Delhi against what they called the American plot in Sri Lanka and the imperialist aggressive threat to the security of Libya (*Aug. 18*). Police charged a Sikh militant leader, Jarnail Singh Bhindranwale, with preaching violence, it was reported (*Aug. 21*). Nationalists in Assam reopened their campaign to force the expulsion of 5 million immigrants (*Aug. 22*).

### INDONESIA

The government announced the release of 3,198 prisoners while 14,000 others had their sentences reduced in a National Day amnesty decreed by President Suharto (*Aug. 17*).

### NORTH KOREA

A South Korean soldier defected to the North, the North Korean Central News Agency said (*Aug. 23*).

### PAKISTAN

At least one person died when paramilitary forces opened fire on opposition crowds in Sindh province, government sources said (*Aug. 17*). Four people were killed and 17 wounded when police fired at a rampaging crowd in Karachi, police sources said (*Aug. 18*). Police fired at a crowd of 20,000 anti-government protesters in Ranipur, Sindh province, official sources said (*Aug. 22*).

### PHILIPPINES

Former senator Benigno Aquino was shot dead at Manila Airport just after he returned from the United States. His alleged assassin was gunned down by security men immediately afterwards (*Aug. 21*). Twelve political groups called for a united and non-violent campaign to restore democracy in the wake of Aquino's killing. President Ferdinand Marcos denied any government responsibility for the killing (*Aug. 22*). A Japanese journalist on Aquino's flight said security men shot the former senator (*Aug. 23*).

### SOUTH KOREA

Six Chinese nationals who hijacked a Chinese airliner to South Korea in May were jailed (*Aug. 18*). The hijackers lodged appeals (*Aug. 19*). President Chun Doo Hwan said that he would step down when his present term ends in 1988 (*Aug. 23*).

### SRI LANKA

The government extended a nationwide state of emergency for a further month (*Aug. 17*).

### THAILAND

A prominent Thai political activist, Anant Senakhan, was jailed for three years for slandering the royal family (*Aug. 17*). Government forces seized and destroyed a large heroin refinery near the Thai-Burmese border controlled by opium warlord Khun Sa, a senior official announced (*Aug. 23*).

### VIETNAM

A Vietnamese court sentenced two men to death for planning a military coup, Kyodo news service reported (*Aug. 17*).

*Aquino minutes before landing; seconds after the shooting: deep sadness, possibly deeper anger.* PHOTOS: U

# DEATH OF A SENATOR

***By Guy Sacerdoti and Rodney Tasker***

**Manila:** The murder of former senator Benigno "Ninoy" Aquino and the unusually defensive stance of Philippine President Ferdinand Marcos' administration in its aftermath has dramatically sharpened uncertainty over the Philippines' political future. As the initial shock following Aquino's murder at Manila Airport on August 21 began to wear off, there were worries among political observers that feelings could escalate from deep sadness to deeper anger, with the possibility of violence.

With Aquino's assassination, coupled with growing concern over Marcos' health, the political situation in the country has become more uncertain than at any time since the imposition of martial law in September 1972. The feelings of disgust and remorse over the gunning down of Aquino moments after he was escorted from his homecoming flight by the military were not confined merely to his family and supporters. Even some senior government officials privately expressed their shock.

Whoever was to blame for the killing, the fact that the government was unable to protect Marcos' chief political rival only a few seconds after his arrival home from three years of self-imposed exile has cast a shadow over the entire regime and brought its credibility into doubt. "Marcos will have to answer a lot of questions," said opposition leader Salvador Laurel, who leads the 12-party opposition umbrella group, the United Nationalist Democratic Organisation. "If he does not answer them satisfactorily, that will be the end of his regime."

Laurel was speaking at a press conference at Aquino's home the day after the assassination. In another part of the house, a continuous stream of Filipinos moved solemnly past Aquino's bloodstained body, still dressed in the white safari suit in which he was shot.

***'The willing sacrifice of the innocent is the most powerful answer to insolent tyranny yet conceived by God and man'***

In view of the international outrage over the affair and the feeling that the government must establish exactly what lay behind the killing, Marcos will have to hold a full and independent inquiry if government statements that there was no official complicity in the plot are to be accepted. With the export-oriented Philippine economy currently in a precarious position, internal political stability and international support are essential.

Marcos seemed to acknowledge this fact at a hastily convened press conference for the presidential palace press corps the day after the murder. Appearing live on national TV along with the majority of his cabinet, he said: "No matter what explanations we give now, there will always be a shadow over the entire government."

He used the limited press conference to convey a sense of shock and embarrassment over Aquino's killing — and also to appeal to the public to remain calm. During that day, a prolonged power failure throughout Manila and the rest of Luzon had sparked a plethora of rumours — that martial law had been reimposed, that Marcos and his family had fled, that there had been a military takeover and that Defence Minister Juan Ponce Enrile was under house arrest.

Marcos displayed far less than his usual vigour at the press conference — and this did nothing to dispel rumours current in Manila that his health has deteriorated to the point where he is no longer in full control. During the press conference he pointedly ridiculed rumours that his wife, Imelda, had played a role in Aquino's death.

Why did Aquino decide to return at this time when it was patently obvious that the Marcos government did not want him back? His recent statements focused on the need for national reconciliation and restoration of rights and freedoms through non-violence. Ironically, in th arrival statement he had prepared, Aquino quoted Mahatma Gandhi: "The willing sacrifice of the innocent is the most powerful answer to insolent tyranny that has yet been conceived by God and man."

Aquino, who had been sentenced to death by a military tribunal in November 1977 for murder, subversion and illegal possession of firearms, challenged Marcos either to execute him or free him. He obviously expected to return to some form of detention, perhaps back to the cells in Manila's Fort Bonifacio where he spent almost the entire eight-year martial law period.

But his intention — whether or not he did it from a prison cell — was to rally the opposition, particularly his own moribund Liberal Party, in the run-up to the National Assembly elections scheduled for May 1984. Some doubted whether after his incarceration during the 1970s and his voluntary exile in the United States, he would enjoy the popular support he amassed during his charismatic pre-martial-law political career.

But the fact that more than 50,000

AP UPI

*Security men remove Aquino's body; display that of the alleged assassin: a shadow over the government.*

mourners — many of them too young to remember Aquino's swashbuckling political style — came to the Aquino residence in the first two days after his death to pay their respects was an indication that the Aquino name is by no means forgotten.

Apart from his desire to revitalise a toothless opposition, Aquino sensed that the time was politically ripe for his return given the low ebb of the economy and continuing doubts about Marcos' health. He also saw himself as something of a knight in shining armour, a man able to fend off the threat of a total military takeover while at the same time containing the rapidly increasing violence organised by the radical Left in the countryside.

It is known that the radicals, including the Communist Party of the Philippines and its military wing, the New People's Army, looked upon Aquino as a threat to their propaganda campaign, which largely depends on Marcos and his wife as targets. Aquino's death, as Marcos noted in his press conference, embarrassed the regime and played into the hands of the Left, in that it got rid of Aquino and discredited Marcos, if only by implication, in one stroke.

At the same time, the loss for the moderate opposition of its most effective leader creates the danger that non-violent opponents of the Marcos regime may now feel they have no alternative but to turn to the extremists. This has been the fear of many foreign governments, particularly the US, which, because of its military bases and large investments, has a special stake in political stability in the Philippines.

The administration of President Ronald Reagan would like to see a peaceful transfer of power in the post-Marcos era and views the 1984 assembly elections as a test of Marcos' sincerity in his stated desire to move the country towards political normalisation. The death of Aquino could jeopardise those efforts.

Laurel believes Aquino's death will serve to unite the hitherto fragmented and frequently bickering opposition. But that is doubtful given the weakness of the opposition and the personality differences among its lacklustre leaders. Laurel himself was far less strident in his anti-Marcos statements following the assassination than many expected. While that may have reflected concern for his personal security in a fluid situation, it disappointed some among the Aquino clan who felt that he should not have missed the opportunity to attack the Marcos government in a more uncompromising manner.

With so few impressive leaders in the opposition, it is possible that some members of the large Aquino family may emerge to carry the banner of the fallen opposition figure. If that were to happen, the Aquino name would itself be a strong rallying point. Aquino's younger brother, Agapito "Butz" Aquino, a businessman who proved himself adept as an organiser and spokesman during the turmoil following his brother's death, is mentioned as a possible clan leader. His only public experience, however, was as president of a national youth organisation in 1967. Aquino's sister, Lupita Concio Kashiwahara, who was probably closer to her late brother than any other member of the family, has a definite taste for politics and may also feel obliged to step into the public arena. However, she says she is happier working behind the scenes.

Aquino's widow Corazon was flying back to the Philippines on August 24 to help with the arrangements for her husband's funeral, which was expected to take place on August 29 or 30 at Aquino's home town of Concepcion, in Tarlac province, central Luzon. The funeral was likely to be attended by many thousands of Aquino supporters, a reminder to Marcos that Aquino will be a difficult name to live down. Alive, Aquino was always a thorn in Marcos' flesh. As a martyr, his memory could be even more of a threat. ■

# A message to Manila

## The US feels the onus is on Marcos to clear up the Aquino mystery

***By Richard Nations***

**Washington:** While the White House insists that there is no change as yet in President Ronald Reagan's plans to visit the Philippines early in November, the enormity of Benigno Aquino's assassination places the onus squarely on Manila to prevent cancellation.

Washington will call first for a swift and credible explanation from the Philippine Government of a murder which has stunned not only United States public opinion, but officialdom as well. Aquino's smooth return home was seen here as necessary to edge the Philippines towards stable political development.

During his talks with Philippine President Ferdinand Marcos in Manila in June, US Secretary of State George Shultz emphasised how important it is to the US that the 1984 Philippine National Assembly elections be fair and open. Congressman Stephen Solarz, chairman of the House of Representatives Asian subcommittee, made a personal appeal to Marcos for Aquino's safety on the eve of his return. Many in the US Congress and the State Department will read the bullet in the back of Aquino's head as a reply to his plea.

The State Department unequivocally called Aquino's murder a political assassination, indirectly rejecting the suggestion that he may have been the victim of a vendetta. According to analysts here, the political assassination of the regime's foremost political opponent while in the cus-

Riot squads surround the hospital where Aquino's body lay; Marcos addresses the nation: unanswered questions.

tody of its own security forces indirectly indicts the regime itself.

The mood in Washington is that these questions must be cleared up before Reagan goes to Manila (*page 40*). And though Washington says officially that it trusts the Philippine Government to conduct a thorough investigation, an independent, if discreet, scrutiny by US intelligence authorities is highly probable.

Officials here are anxious to contain speculation over who is responsible for what the State Department condemns as a "cowardly and despicable act." Privately, many suspect official involvement, though they find it difficult to believe that Marcos himself would have the effrontery to order the killing of the man who, after three years of self-exile in the US, was highly regarded here as a symbol of the Philippines' democratic conscience.

The most popular theory in Washington focuses on unnamed culprits in the Philippine armed forces who envied Aquino's popularity in the US and feared that a deal between him and Marcos would lock them out of power. This theory exonerates Reagan's personal friend in Manila, but it raises the spectre — equally disturbing from Washington's point of view — of a debilitating power struggle which Marcos could not control.

Unless Aquino's murder is explained satisfactorily — and soon — the White House will face a tough choice as Reagan's departure on his five-nation Asian tour approaches. Manila is the first stop on the itinerary, and a flood of journalists' unanswerable questions over Aquino's death could cast a long shadow over the journey.

To bypass the Philippines, however, might be misread as a signal that Washington is abandoning Marcos, thus compounding the danger Washington fears most — political fragmentation which could ultimately jeopardise US control of the Clark and Subic Bay military bases. ■

# Anatomy of a killing

## There are eight vital questions which must be answered to erase national and international doubts over Aquino's death

**Manila:** Shortly before he boarded China Airlines flight CI 811 in Taipei, former Philippine senator Benigno Aquino told his brother-in-law of a rumour he had heard the previous night — that he would be killed on arrival at Manila International Airport, and that his assassin would be shot. "Because of this, I will wear a bulletproof vest," Aquino said. Before the aircraft landed, Aquino told journalists: "If they hit me in the head, I'm a goner." It was a tragic prophecy.

Within seconds of being taken under armed guard from the aircraft after it had landed in Manila, Aquino lay dead on the tarmac. And shortly afterwards, the man the Philippine Government says fired the fatal single shot lay nearby, his body riddled with bullets. Aquino had put on his bulletproof vest shortly before landing, but was shot in the head.

The violent end to the life of President Ferdinand Marcos' chief political rival provoked immediate and widespread domestic and international outrage. And the worldwide clamour for answers to the questions which Aquino's bizarre death raised is unlikely to die down until the Marcos government can prove conclusively that it had no part in the slaying.

Aquino had announced his intention to return from the United States on August 7, but the government refused to replace his expired passport, saying that it had learned of a plot to assassinate him. He was advised to remain in the US for at least another month while local intelligence authorities investigated the alleged conspiracy.

But the opposition leader was determined to return, come what may, and subsequently announced that he would arrive back in his homeland two weeks later, ending his three-year voluntary exile. He made good his promise by travelling on a circuitous route from the US, stopping in Japan, Malaysia, Singapore and Hongkong before taking the final fateful flight from Taiwan. Denied legitimate documents, he used a fake Philippine passport, under the name of Marcial Bonifacio — reflecting his seven years and seven months under military detention in the army's Fort Bonifacio during the martial-law years.

On the aircraft with him were about a dozen newsmen, including his brother-in-law, Ken Kashiwahara. "During the flight, Ninoy said that he was afraid some nut might think they were doing the government a favour by shooting him," Kashiwahara told the REVIEW. But generally, Aquino appeared to think that the worst he could expect on arrival was immediate arrest and a return to his old jail. Despite the official and other warnings that he might be killed, Aquino told his brother-in-law: "You've got to make a decision and then you've got to go through with it."

Neither Aquino nor any serious observer could have imagined the horrifying conclusion to his journey. According to eyewitnesses on the flight, shortly after the aircraft docked at the terminal, three men in khaki uniforms went on board looking for Aquino. When they found him, one, wearing sergeant's stripes, bent down to shake his hand and mumble something in his ear. He then took his arm and helped him out of his seat as another soldier took his other arm.

**MABUHAY**

As they swiftly led him away, the third trooper picked up his hand luggage and followed. Kashiwahara, alarmed at what was happening, shouted after them: "You can't take him. He's my brother-in-law." He scrambled to follow the party, along with pressmen filming and taking pictures.

Aquino and his armed guards, instead of proceeding through the embarkation tube to the arrival area where a large group of foreign pressmen had been told by security officials to expect him to pass, ducked through a door in the tube just past the aircraft exit. While Aquino was led down the steps to the tarmac, where an Aviation Security Command (Avsecom) vehicle had earlier been seen pulling up near the aircraft, security men kept back the pursuing press.

According to passengers on the aircraft, a few seconds later shots were heard. All seemed to agree that there was one initial shot followed by up to five more, and then, a short while afterwards, a burst of automatic fire. A West German passenger said later he saw Aquino pitch forward on to the tarmac and then saw blood spurt from his neck. Simultaneously, he saw the alleged assassin, wearing a blue tee-shirt and jeans, shot down close by. Other passengers saw a security man jump out of the Avsecom van and open up with his automatic rifle at the body of the alleged assassin as it lay sprawled on the ground.

Aquino's body was quickly bundled into the van and driven away. The assassin's body was left on the tarmac for the next six hours, and became the object of at least two separate conducted press tours for the local and foreign press.

A Japanese newsman travelling with the party claimed later that he saw Aquino's two military escorts pull out their pistols and point them at his head. They fired and Aquino slumped to the ground face first. According to the newsman, the doors of the Avsecom van opened and the man said to be the assassin was pushed out.

As he tried to scramble back in, he was gunned down by security guards. There has been no confirmation of this story and the government insists that the second man killed was a lone assassin. Two days after the shooting, however, the alleged assassin remained unidentified.

Aquino's body was taken to the Fort Bonifacio army hospital and later to a memorial chapel. An official autopsy report said the former senator died of "brain laceration and intracranial haemorrhage secondary to gunshot wound of the head." The bullet entered under the left ear and exited just under his lower lip. Government officials say it was fired from a powerful .357 Magnum pistol at no more than 18 ins from Aquino's head. However the autopsy findings, which mention powder burn "tattooing," indicate the fatal shot could have been fired substantially closer.

As the government conducts its own investigation, a number of serious and nagging questions surrounding the assassination must be answered if criticism and scepticism of the official version of the murder are to be laid to rest.

- ▸ Who was Aquino's assassin? Was it the man shot after Aquino or was it one of the military escorts sent ostensibly to protect him?
- ▸ If the killer was a lone, civilian assassin, how was he able to penetrate an airport placed under the tightest security for Aquino's arrival and fire the fatal bullet at point-blank range with security men so close and the public so far away?
- ▸ How did the assassin know that Aquino would be taken from the aircraft in such an unlikely way?
- ▸ Where did Aquino's military escorts go after the shooting, as none of the photographs or TV footage shows any of the three after Aquino hit the tarmac.
- ▸ Why was the government's videotape of the arrival, which began as the aircraft approached the tube, cut in several significant places, most importantly during the murder itself? The footage jumps from the taxiing aircraft to Aquino lying face down on the tarmac.
- ▸ Given the necessity for an immediate investigation, why did the government leave the body of the alleged assassin on the ground for six hours as an exhibit for the press?
- ▸ Why, even acknowledging the need for the tight security, was no pool photographer or journalist from the foreign press allowed to join the small group of local airport photographers allowed to cover Aquino's immediate disembarkation from the aircraft?
- ▸ If the threat of assassination was so clear to Avsecom, why was there no ambulance present?

Among those waiting for Aquino in the VIP lounge near the customs barrier were his mother Aurora and several other members of his immediate family. Journalists who greeted the stunned passengers disembarking ran to the VIP lounge. The family knew Aquino had arrived but were unaware of the tragedy.

Estimates of the crowd of Aquino supporters outside range as high as 50,000. When opposition United Nationalist Democratic Organisation president Salvador Laurel emerged with Aquino's younger brother Agapito, the crowd thought they were seeing Ninoy and went wild. After working through the throng of supporters, Laurel had to announce reports of the shooting, but said Aquino's death had not been confirmed. He pleaded with the crowd for prayer rather than violence.

The sad events of August 21 coincide with the 12th anniversary of the bombing of a Liberal Party rally in Plaza Miranda Square in Manila when several of Aquino's party colleagues were killed or wounded. The date will now go down as marking two of the blackest days on the Philippines political calendar.

— GUY SACERDOTI and RODNEY TASKER

# Death in the fast lane

**Aquino was a tough, hard-driving politician, and his legacy will be hard for anyone to live up to**

***By Rodney Tasker***

**Manila:** Ninoy Aquino liked to live his life in the fast lane. Intense and impatient, he was always in a hurry to achieve his goals. And his main goal was to become president of the Philippines. Tragically, a final attempt for that supreme achievement was denied him by an assassin's bullet.

From the time he entered politics in 1955, when at the age of 22 he was elected the Philippines' youngest mayor, he appeared to have his sights set on the No. 1 slot. He used to tell his family that there was no point in entering politics unless the aim was to go right to the top. But he qualified this by saying that while hard work and skill would thrust a politician so far up the ladder, only a divine gift from the people would secure him the presidency.

The words "young" or "youngest" pepper Aquino's career. He became a foreign correspondent at 18, when he was sent by the *Manila Times* to cover the Philippine expeditionary force taking part in the Korean War. From mayor of his hometown of Concepcion, in the central Luzon province of Tarlac, he went on to become governor of Tarlac in 1961. He was 28.

Many would have been content to have remained governor, as Aquino, judging by his popularity, could have done had he wanted. But his ambition and his overwhelming popularity in his home province drove him into the big league. In 1967 he became the youngest senator in Philippine history.

In those days, politics in the Philippines was a free-wheeling, dirty and often violent business. The young Aquino took to the life like a duck to water. With his quicksilver mind and fast, flowery oratory, he proved more than a match for his fellow politicians — including another dynamic political figure of the time, Ferdinand Marcos. In 1965, Marcos swept through to be elected for his first term as president. Aquino was in the opposition Liberal Party. Given their similar oratorial qualities, political skills and driving ambition, the two were bound to clash.

And they did, ferociously. In 1969, Marcos became the first president in the Philippines' history to be elected to a second four-year term, defeating the Liberal Party's Sergio Osmena in what was recognised as the toughest, dirtiest presidential election the country had known. The phrase "guns, goons and gold" was coined at the time to describe the campaigning tactics used. Influential oligarchs with private armies and plentiful, widespread supplies of arms were the order of the day, and no one denies that Aquino had his own little army.

Aquino's province, Tarlac, was a traditional base area for communist guerillas. The young politician felt obliged to establish contacts with them, not to support them but to know more about them. In 1954 Aquino was awarded the Philippine Legion of Honour by then president Ramon Magsaysay for "exemplary meritorious service" to the people by negotiating the surrender of Luis Taruc, leader of the communist Huks.

After his election as senator, he learned how to deal with the more ominous successors to the Huks, the newly formed New People's Army (NPA), the military arm of the pro-Peking Communist Party of the Philippines.

The Marcos government tried to label Aquino a communist sympathiser, if not activist — a charge which he emphatically denied until his death. Ironically, Marcos has now claimed that Aquino's assassin may have had NPA connections; maybe it was a "communist rub-out," he said in his televised press conference the day after Aquino's death.

After Marcos' re-election, Aquino stepped up his attacks on the Marcos government, singling out Marcos' wife, Imelda, for particularly vitriolic abuse because of her big spending of public funds on prestige projects. While Marcos had good reason to be wary of the man who was his most visible political rival, and the one tipped to be elected president in the 1973 election, his wife apparently had a more personal grudge against him because of his relentless criticism.

Marcos declared martial law on September 21, 1972, claiming that he was saving the nation from violent threats from both Left and Right. Around midnight on the same day, Aquino was picked up by troops in a leading Manila hotel and put under military detention. He was to spend seven years and seven months in jail. In the early stages of his incarceration he went on a 40-day hunger strike to protest against his detention.

Aquino spent most of his time in jail reading and writing. He refused to appear before a military tribunal trying him on charges of murder, subversion and illegal possession of firearms, saying he did not recognise the court's jurisdiction. He eventually began to appear at hearings in mid-1977, when his impassioned outpourings to the effect that his was purely a case between himself and Marcos — "my jailer, judge and jury" — brought little response from the stony-faced military panel which, in November 1977, sentenced him to death by firing squad. But the Philippines does not execute people, at least not officially.

Aquino had at least two meetings with Marcos, the last in 1977. The two were always cordial with one another, but on guard against the other's political nimbleness. They often called each other "Brod" (fraternity brother) as both studied in the University of the Philippines College of Law. But with his martial-law powers, Marcos could play with Aquino like a cat with a mouse. At one stage, in June 1978, Aquino was packing his bags in his cell under the impression that negotiations with Marcos for amnesty were successful.

But he remained in jail until May 1980, when Marcos let him leave for the United States on humanitarian grounds to undergo a heart-bypass operation. The operation was successful, and Aquino swiftly regained his health. But he remained in Boston to take up a research fellowship at Harvard University, and stayed there until the fateful day he left to return to the Philippines.

Some pundits in Manila in the 1970s used to speculate that if Aquino had been allowed to fight and win the presidential election scheduled for 1973, he would probably have declared martial law himself because of the lawless state the country had reached. They also suggested that the man was tougher than Marcos and that he would have treated Marcos more sternly than he himself was treated. While under detention Aquino was kept in a comparatively comfortable military bungalow, with TV, books, and weekly conjugal-rights meetings with his wife, Corazon.

This correspondent used to exchange clandestine letters with Aquino during his incarceration in 1977-78 and in none of the letters was there any hint of malice towards Marcos. It was as though he accepted the Realpolitik situation of a dictator keeping his chief political rival locked up. His main frustration was that he could not keep in touch closely enough with what was happening in his country.

This sense of frustration came through again in 1981, when this correspondent talked to Aquino as he was passing through Hongkong. At that time, he was making a quiet trip to Malaysia to look into the feasibility of a plan to return to the Philippines by boat via Sabah. He spoke with a sense of urgency about preventing a violent revolution in the Philippines, citing Nicaragua as an example not to be followed. There was a similar message in Aquino's prepared arrival speech at Manila Airport on August 21, which, tragically, he was unable to make.

Ninoy Aquino was certainly a man in a hurry, and with youth on his side. Although he obviously had a personal ambition to be leader of his country, there is every reason to believe that he was genuinely anxious that there should be a peaceful transition of power, with a more liberal form of government, to prevent what he foresaw as a violent revolution. If that is indeed the Philippines' possible fate, sadly some other figure will now have to take up Aquino's mantle, his legacy.

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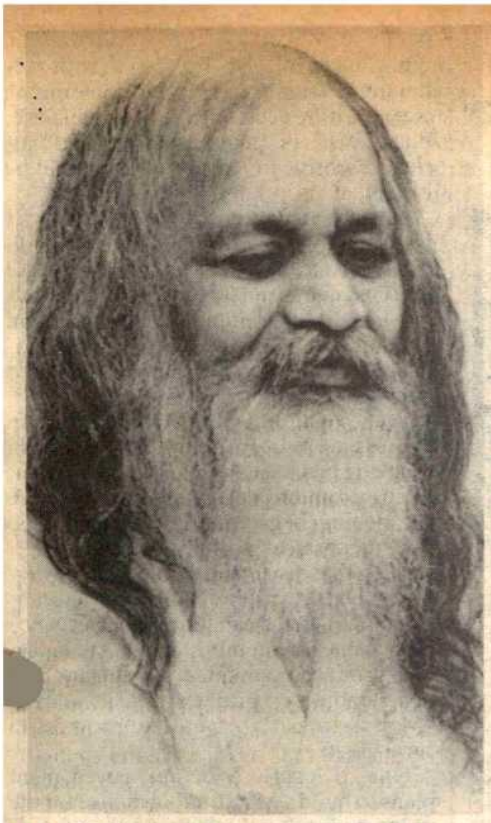

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*Musa and Mahathir after 1982 election victory: team spirit is shaken.*

**MALAYSIA**

# Faux pas in the party

**Mahathir suffers a storm of criticism from Umno delegates for suggesting his choice as deputy should remain unchallenged**

***By K. Das***

**Kuala Lumpur:** The annual general assembly of the United Malays National Organisation (Umno) — arguably the only democratic institution of real significance in Malaysia — has witnessed for the first time in the party's 37-year history a concerted attack on its incumbent president, Prime Minister Datuk Seri Mahathir Mohamad. At the assembly which convened here on August 19-21, Mahathir was accused of being autocratic and not understanding the meaning of democracy. Opponents also asserted that he was opportunistic for upholding tradition only for the convenience of the party leadership.

These vehement attacks, without parallel in past assemblies, were touched off when Mahathir made what Umno veterans say was an unprecedented declaration: he told the 1,200 delegates to the 34th general assembly that his deputy, Datuk Musa Hitam, must not be challenged at the party election next year and declared that any challenger would be giving in to personal ambition and setting aside what he called team spirit.

This message to Finance Minister Tunku Razaleigh Hamzah, who lost the battle for the deputy presidency to Musa in 1981 and critically split the party, stunned delegates, who hail from 11 of Malaysia's 13 states and represent some 960,000 members. No Umno president, according to a former Umno secretary-general, has directed delegates so bluntly as to who they should nominate or elect.

It is an open secret that Razaleigh is preparing to challenge Musa next year and that new alignments are now being forged, old quarrels patched up and new policies formulated to accommodate critics. However, while both Musa and Razaleigh know it is going to be a rough battle, both clearly accept the ground rules.

The Mahathir announcement, which came at the end of a 90-minute address, eliminated issues some delegates at the Hilton Hotel were hoping to debate at length. One of these was the question of the Hongkong subsidiary of Bank Bumiputra Malaysia, Bumiputra Malaysia Finance (BMF), which involved some M$700 million (US$400 million) in questionable loans to three ailing companies and the murder in Hongkong in July of a senior bank official. In the event, the assembly did not even touch on the issue. Another preoccupation of the delegates was the recent amendments to the constitution, which seek to make royal assent to acts of parliament superfluous (REVIEW, Aug. 25).

Mahathir at first made light of the criticism directed against him, saying that delegates must attack the leadership to get applause because praising it would look suspiciously like lobbying for personal gain. However, despite this attempt to dismiss his critics, delegates did not halt the attack.

On the final day of the assembly, when members of Umno's supreme council traditionally reply to delegates' criticisms, all attention was focused on Musa. The question was whether he would accept Mahathir's endorsement without reservation. Musa made it implicitly clear that while he was grateful, he was in no way subscribing to the Mahathir style. Of Mahathir's support, he said: "I do not know what to say. I have not even thanked him for it." He added, however, that criticisms of Mahathir "also involve me."

Musa's speech, which was brief compared to Mahathir's, was received with quiet approval. He expressed with wry humour his desire for peace with Razaleigh by declaring, to loud applause, that should the finance minister get married, as has been rumoured, he would be best man.

Mahathir's final speech followed this. It was seen by many delegates as extraordinarily inconclusive. His use of humour did not conceal an undertone of disappointment that Musa had not risen to give him unequivocal support. But he also expanded on why he supported Musa openly.

Preoccupation with Mahathir's main address also distracted delegates from touching on the economy, though this was discussed among delegates for days before the meeting began. It is now being argued that the subject was avoided because it was felt that discussion would lead inevitably to the BMF affair. But Umno veterans also assert that Mahathir's policies since he became prime minister two years ago had produced a number of slogans and heavy-industry projects such as the "Malaysian car," but no real progress in rural areas.

One delegate criticised government plans to build a M$10 million house for the prime minister in Kuala Lumpur. Another criticised the massive Dayabumi building project in the heart of the capital — built by Japanese contractors at a cost of more than M$500 million while the local tender to build it for M$171 million had been rejected.

Mahathir finally weathered the storm of criticism with some skill, but delegates left the assembly with misgivings about the level of support he now enjoys. It was clear that he had miscalculated the mood of the delegates, whose number and composition has changed significantly over the past three decades. There are now large numbers of university graduates and professionals where there once used to be farmers and schoolteachers and a handful of civil servants. In the past a presidential hint — and it was always a vague and equivocal hint — was enough for delegates to follow a suggestion wholeheartedly.

But what appeared to be a Mahathir directive to leave Musa unchallenged as his successor fell on unreceptive ears. Seasoned Umno analysts believe that in the end the directive may prove counterproductive. For the next year or so, until the election assembly of Umno, lobbying and faction-building is likely to go on faster than in the past year. Some senior ministers are thought to be rethinking their options on who to back.

The BMF affair has weakened Razaleigh's position in the past few months because it was generally believed that he carried some of the responsibility for the finance company's misjudgments. But with the Umno assembly ending without the issue being raised, according to one Umno minister, "a whole new game has begun. Mahathir may have tried to ensure Musa's future, but he has only given Razaleigh a new lease of life."

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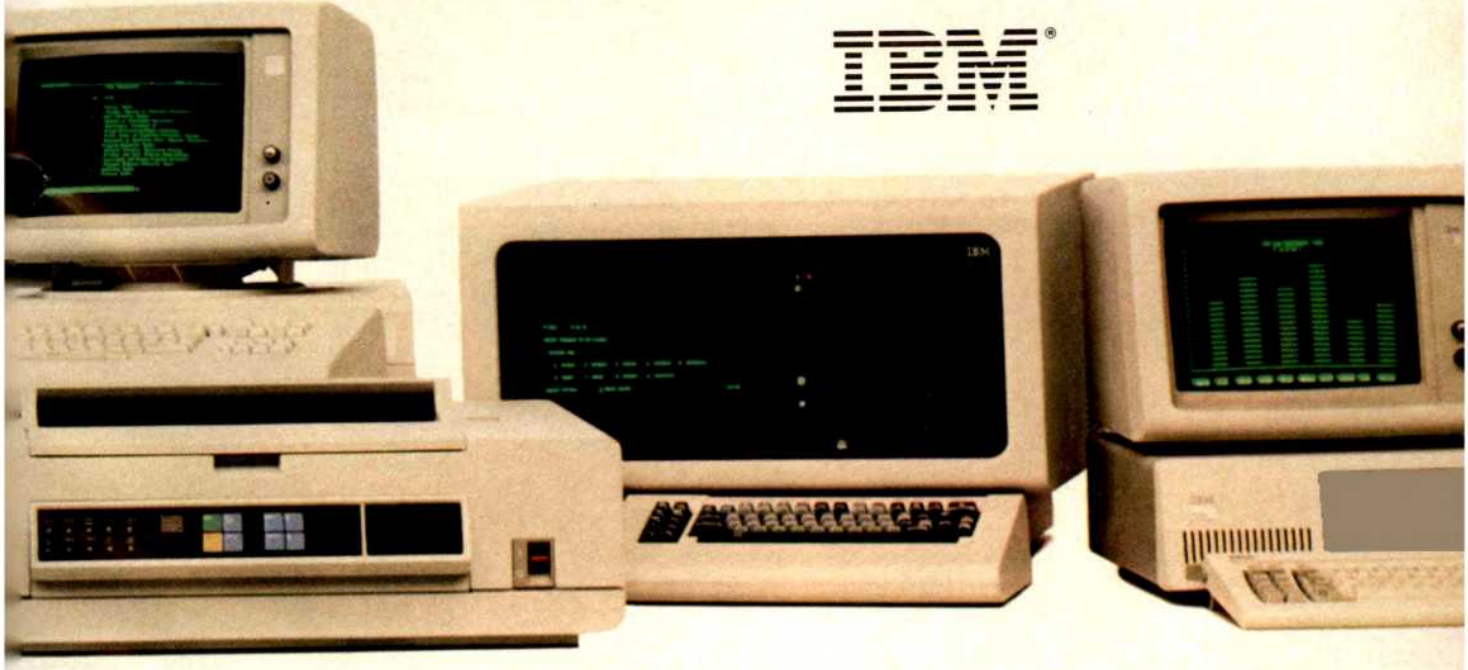

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## Ershad seeks a role for the army after a general election

# The march to democracy

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*By Nayan Chanda*

**Dhaka:** More than 16 months after the imposition of martial law in Bangladesh, the government of Lieut-Gen. H. M. Ershad is preparing to return the country to a new form of democracy that will ensure the continued dominance of the military and keep political parties on a short leash. The government has yet to announce the type of constitution it would like to see, but its electoral strategy appears intended to curb the national role of political parties and strengthen the military regime's influence in the countryside.

Ignoring the parties' demand that a nationwide general election be held before local contests, Ershad has already announced the dates of local elections — to be organised on a non-party basis — as the first step towards democracy. Funds worth Taka 1.66 billion (US$67.8 million at the official rate here) have been distributed to some 490 newly created administrative units called upa-zillas, or sub-districts. Ershad has been criss-crossing the country by helicopter supervising the work of the new upa-zillas and urging local electorates not to vote for politicians. Simultaneously, in preparation for the general election to be held in the spring of 1985, moves are afoot to launch an army-backed political party.

NAYAN CHANDA

*Ershad in Sarail: time to vote for an honest man.*

Following the example of the late president Ziaur Rahman, who travelled frequently to the remotest corners of the country to mobilise public support for his government, Ershad takes helicopter rides to the countryside almost five days a week. A minimum of prior notice is normally given to the local authorities, who are the objects of his inspection. After accompanying Ershad on one such trip, to the Comilla district east of the capital, this correspondent returned with the impression that in addition to supervising the work of upa-zillas, the general may have begun his election campaign as well.

After telling a public meeting in the Sarail upa-zilla what he has done to protect the interests of landless peasants and noting the amount of money he has given for use in the area, Ershad promised to provide an irrigation canal as demanded by the crowd — leading to shouts of: "Long live Ershad."

At the same time, he told the gathering not to vote for money in the coming upa-zilla elections (March 1984). "In the past you have elected a lot of bad people for the sake of money," he warned. "This time vote for an honest man who loves the people and who is religious." Subsequently Ershad walked through the Sarail streets, shaking hands with people among the crowd pressing against him. Two mullahs who came out of a mosque to greet him immediately had their wish granted — Taka 5,000 for the maintenance of the mosque. Surveying the cheering crowd, one official murmured: "The [opposition] Awami League must be living in fool's paradise when they call for elections." At least in Sarail, the outcome of an electoral contest would seem decidedly in Ershad's favour.

Independent political observers believe that those likely to be elected chairmen of the upa-zillas would in most cases be supporters of the martial-law regime. By virtue of the powerful position they would hold, the chairmen of the upa-zilla councils would inevitably influence the outcome of national elections in favour of Ershad and the army-sponsored party.

In an interview, Ershad clearly hinted at his desire to enter politics after retiring from the army. What has not been decided yet, he said, was "when and how" he would launch his political career. He avoided a question about his political party, saying: "At this moment I am committed to creating the infrastructure without which no politics or political parties can stand firm." But Ershad's announcement in March of an 18-point programme for the country was tantamount to a political manifesto. Soon after that announcement, two student and youth organisations appeared. With obvious backing from the government, they pledged their commitment to the 18-point programme.

Since early July the government has started setting up committees throughout the country to implement the programme. "Programme implementation committees are being set up at the rate of five a week," noted a foreign observer. "And with the director of armed forces intelligence personally vetting the committee members, we are clearly witnessing the birth of the army's own political party."

In November 1981 — four months before taking power — Ershad, as the army chief of staff, had declared that the way to ensure democracy and stability was to "give a proper place to the military in our society" through a constitutional solution. The original idea of giving the military a role in running the country to prevent coups has since been expanded to justify a pervasive role.

In an interview with the government-owned TV station last year, Ershad asserted that the armed forces are rich in administrative, organisational, technological and engineering skills — all of which are much lacking in Bangladesh. "Hence, it will be logical to use the patriotic armed forces for reorganising the country as a unified, united and powerful nation," he said.

It has also been made clear that before an elected government is restored, the constitution will be modified to give the armed forces a well-defined and permanent role. There has been speculation that the armed forces would be given 30-40% of the seats in an upper house of parliament.

Whatever role the armed forces may eventually have in parliament, military personnel are already being placed in various branches of the administration. There are 34 martial-law courts as well as martial-law administrators at various levels of the administration, and army officers now occupy senior positions in various ministries. Contrary to official claims, many of these appointees lack the specialised knowledge and experience of their civilian counterparts. They serve as the army's eyes and ears.

"No matter what happens in the elections," a Bangladeshi intellectual noted gloomily, "I just don't see [army officers] going back to the barracks."

Ershad denies that a large number of

KP 2965

military officers are being placed in the ministries, but he acknowledges that because of the shortage of trained manpower, retired army officers are being assigned to various jobs. Informed sources say a majority of police superintendents' posts and a large number of positions in the state-run corporations have been handed over to retired officers.

While entrenching the soldiers in the administration and preparing to launch a political organisation to promote the army's views, Ershad has also been quietly consolidating a centrist position within the army that could be acceptable to a broad spectrum of opinion. Two stalwarts of the martial-law regime have recently been removed from sensitive positions. Both of them — Maj.-Gen. Mohabbat Jan Chowdhury and Maj.-Gen. Abdur Rahman — had gained notoriety as ultra-Right, hardline generals and were seen as principally responsible for the police brutality on the Dhaka University campus on February 14 which caused an estimated 30 deaths. Chowdhury has been relieved as home affairs minister and Rahman, who was commander of the 9th Division, in charge of the capital, has been offered an ambassadorial post.

Some foreign observers, in fact, see this recent reshuffle as aimed at consolidating the unity of the armed forces on the question of moving towards elections. "Both Rahman and Chowdhury have nothing but contempt for the civilians and would not like a return to civilian rule even if it is Ershad in civilian clothes," one analyst said. "I understand they even opposed Ershad's idea of opening a dialogue with the parties." Other senior military leaders are believed to support Ershad's effort to introduce a restructured democratic system.

In addition to the apparent unity among senior military leaders over political strategy, several other factors seem to favour Ershad's moves towards civilianising army rule. The general is due for retirement by the end of 1984, and political observers expect him to step out of uniform and assume leadership of an army-sponsored party before that date; unity among the top echelon of the army is expected to make that transition smooth.

Moreover, a leading Bangladeshi analyst pointed out: "Ershad is reaping the fruit of Zia's brutality. After Zia's ruthless execution of more than 2,000 officers and men for suspected disloyalty, there is a terror in the army about violating discipline. It certainly would dampen the ambition of many colonels."

The near-universal political apathy that has resulted from a decade of anarchy and misrule by rapacious politicians has provided a highly favourable climate for the men in uniform. Political parties, which seem to proliferate at almost as high a rate as the population, have been largely discredited as a result of their empty slogans and factionalism; very few of them have any organised following in the countryside, lacking both the means and the will to build a rural following.

Martial law has further narrowed their scope by banning all outdoor political activities. In contrast, the army has most of the media to project its views, the means of transport to get in touch with the people and all the resources to win popular support.

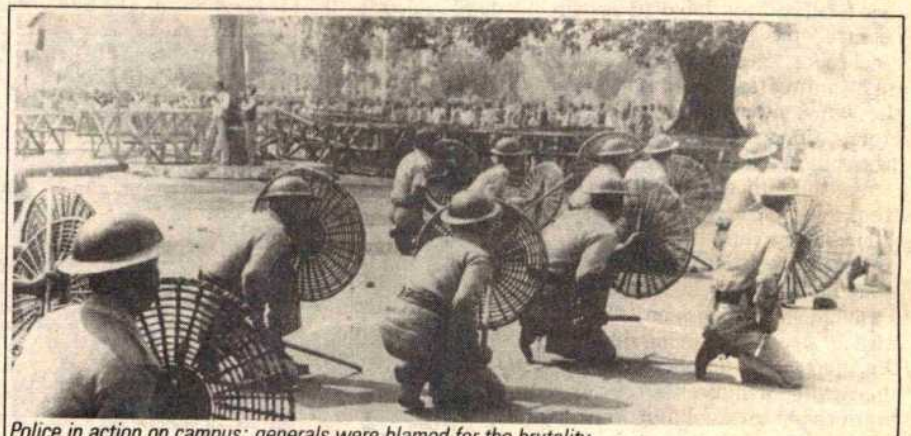
Ershad's government also seems to enjoy the support of the major Western countries, China and neighbouring India — support based on the hope of stability and on the conservative development policies pursued by the regime. More specifically, the administrative reorganisation upgrading thanas, or police stations, into upa-zillas for the purposes of planning and for their accountability to the government has received enthusiastic support from the World Bank. In July members of the Bangladesh aid consortium met in Dhaka and offered to rearrange an aid package to take account of its use by the upa-zillas.

Despite the role of upa-zillas as a cornerstone of Ershad's effort to undercut the political parties, none of the latter has offered any criticism. Asked to comment on the use of upa-zillas as growth centres and as a basic unit of democracy, a senior official of the Awami League (Sheikh Hasina faction) — the principal political opponent of the regime — could only point out that the late president Sheikh Mujibur Rahman was in favour of such administrative devolution. Other than demanding that the upa-zilla elections be held a general election, the 15-party opposition alliance has not criticised the reform.

In Bangladesh, with its 68,000 isolated villages and extremely poor communications, the idea of devolution has always held appeal. Successive governments, from the late Pakistani ruler Field Marshal Mohammed Ayub Khan to Mujib and Zia, toyed with various forms of administrative decentralisation. Since 1972, the World Bank has consistently urged the government to institute local accountability as the best means of effectively using aid. While previous regimes studied the idea, Ershad has given it priority.

Indeed, within a month of his takeover Ershad appointed a committee of army officers and academics to study administrative reform and reorganisation. On the basis of their recommendations, the government launched its plan in November 1982 to upgrade 493 thanas (the lowest level administrative unit) into upa-zillas, each with an average population of 200,000. The aim is that chairmen of the upa-zillas, elected for three years, preside over a council composed of elected members from lower units — unions — and civil servants representing various ministries in the capital. Under the plan upa-zillas have their own budgets and development plans. Assisted by a chief executive officer — also a civil servant — the chairmen implement these plans. While government servants are to be accountable to them, the chairmen will be accountable to the central government and the electorate.

The government hopes that establishment of administrative machinery to conceive and execute plans locally will drastically reduce the bureaucratic delays and waste of the past, when every ministry ran things directly from Dhaka. Bureaucrats who ruled like petty tyrants in collusion with local allies are to be accountable to an elected chairman and their actions will come under the scrutiny of the local people. "With upa-zillas, politics will cease to exist," said an army officer with obvious satisfaction. "Politicians will never return to their constituencies after the election and stay in Dhaka to line their own pockets would have no chance."



*Police in action on campus: generals were blamed for the brutality.*

It is hoped that with the presence of government officials, many of whom are now being sent out from Dhaka, and the locally determined use of funds, upa-zillas will become growth centres in the countryside. One army officer conceded that the corruption that plagues the central government may also afflict upa-zilla bureaucrats, but he added: "At least the corruption money would be spent locally."

Another measure taken by the martial-law regime that seems to have been generally welcomed is the decentralisation of the judiciary. High court benches have been set up in five district towns, and civil courts have been taken down to the upa-zilla level. While this is expected to make justice cheaper and swifter, unemployed or under-employed rural lawyers will also benefit from the measure.

Ershad's government also appears to have brought some order and discipline to

the Dhaka administration, which has been honeycombed with corruption. "We discovered that such elementary things as annual confidential reports did not exist," said a source close to Ershad. "How can you reward the efficient and punish the incompetent without this?" Foreign observers say that cases of massive organised corruption, which meant that almost any government action had to be bought with a bribe, have been reduced.

But the moves that have earned the most praise from the World Bank and the business community are the denationalisation of industry and the decontrol of private business. In June 1982, the government announced a new industrial policy offering incentives and opportunities for private investment. The government also launched a policy of disinvestment under which some 600 industrial ventures, including about 60 jute and textile mills, have been transferred to the private sector.

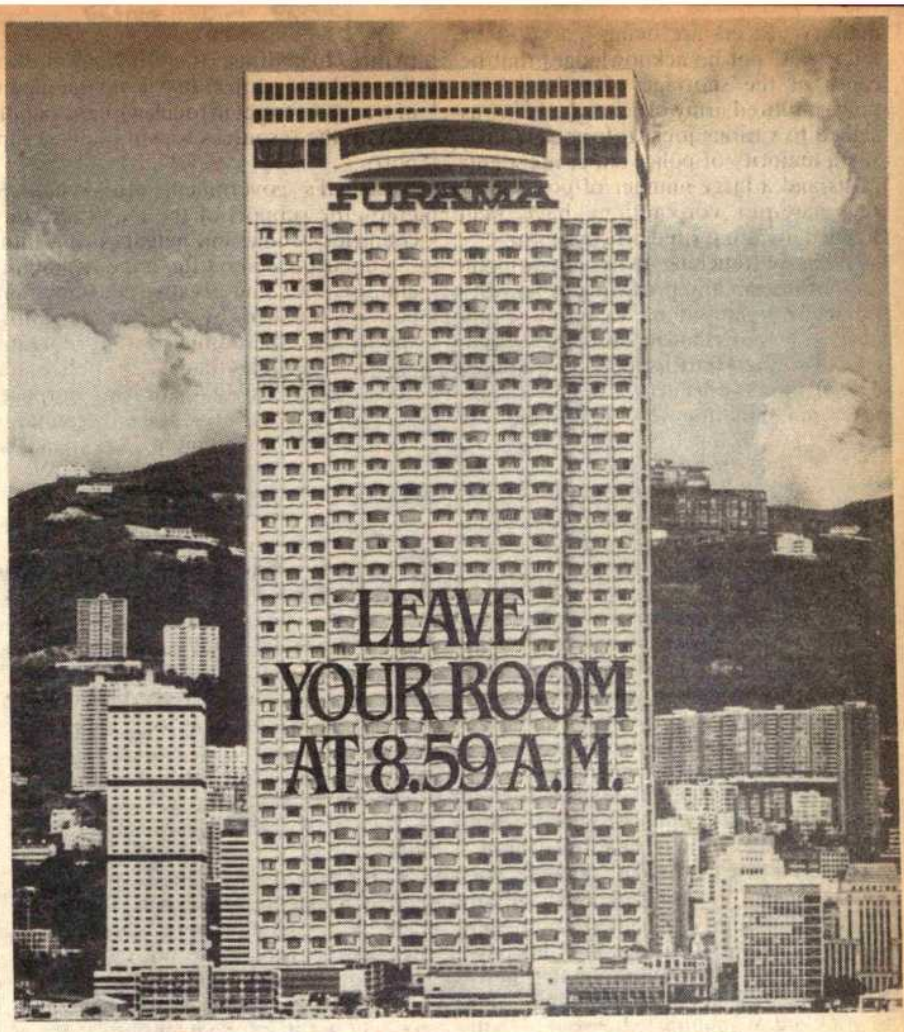
Industry and Commerce Minister S. M. Shafiul Azam said the current policy is not the result of any doctrinaire approach. Some 10 industries previously reserved for the state sector have now been thrown open to private investment only to make the fullest use of existing potential. "To show our earnestness to the private investors we went to the extent of turning over some jute mills to their former owners," the minister said. While six important sectors would still remain under state control, the Ershad government seems determined to nurture a capitalist economy by providing hothouse conditions.

In agriculture, the regime has adopted policies that could bring significant change in the countryside if strictly applied. The government intends to lower the ceiling on private ownership from 33 acres to 20 acres and redistribute excess land to landless peasants. The government has also enacted a law to give sharecroppers the right to work on a piece of land for a minimum of five years and retain two-thirds of the crop if they provide seeds, fertiliser and other inputs along with labour.

The land policy enjoys the full support of the World Bank, which is deeply concerned by increasing landlessness and rural poverty. In a recent report, the bank said that as massive redistribution of land is not politically feasible, the government should encourage the break-up of existing holdings by imposing land taxes and forbidding the purchase and sale of land by individuals.

But the problem in Bangladesh is not the absence of legislation or a lack of good intentions on the part of the rulers. It is the proverbial one of who is to impose the required discipline. In 1972 a presidential order called for redistribution of land held by individuals in excess of the ceiling of 33 acres. But nothing was done because those 7% of total households that hold 48% of cultivable land also include influential political notables and senior government servants.

There is a danger that similar collusion between bureaucrats and the elected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chairmen of upa-zilla councils, who are likely to be prominent locally, may frustrate hopes for accountability and efficiency. Decentralisation is also encountering silent resistance from officials who do not want to leave the comforts of urban life to serve at an upa-zilla. "The problem with the upa-zilla plan," said a senior Western diplomat who is well disposed to the regime, "is that it is being done in great haste. It should have been prepared over a five-year period, but it is a tragedy of this country that one does not have much time." Many observers believe that the upa-zillas are being hurried along to fit Ershad's timetable for retirement from the army.

The government's implicit faith in what United States President Ronald Reagan once termed "the magic of the marketplace" may also run into serious snags and undo some of its other achievements. Senior government officials admit privately that denationalisation of jute mills could lead to a price-cutting war and affect the country's principal export earner. In view of the poor record of repayment by the private industrial sector, there is also strong doubt about the outcome of easy government financing. Last year several cases were found in which a dummy industry was set up to salt away foreign-exchange credits from the government.

While paying lip-service to the need for land redistribution and a check on the increase in landless peasants — who now constitute 50% of the rural population — the government is essentially relying on the trickle-down theory. More pumps and more fertiliser to farmers who can afford these would, the government seems to believe, not only increase food production but provide more employment. Agriculture Minister A. Z. M. Obaidullah Khan acknowledges the problem with some resignation. "Without a social revolution, it is impossible to implement land reform through a democratic government," he said.

Despite adverse weather, food production in Bangladesh last year grew by 5% and reached a record 15.1 million tonnes of grain. If a 6% growth rate can be sustained for the next two or three years, Bangladesh will be able to meet its needs. Khan said that while achieving self-sufficiency in food may not be a great problem, it is still a question whether the poor will have money to buy it. "Unless we can provide rural employment and generate income in the countryside, we will have serious trouble in hand," he added.

The most urgent of Bangladesh's problems — the birth of some 8,000 babies a day — does not seem to be getting the attention it deserves. Western officials — even those who are fairly supportive of the regime — shake their heads in despair over the population issue. "We have heard speeches, we have seen posters urging birth control in Dhaka," said one foreign official. "But precious little is being done about this nightmarish problem." Another foreign observer said that only 18-19% of fertile couples in Bangladesh use contraceptives. In the unlikely case of raising that rate to 65% by the end of the century, the population would still double from its current 93.3 million.

"The problem with Bangladesh is that the planning horizon of the leaders here is not more than two or three years," a Western official asserted. "Nobody has the time to look farther ahead." Indeed, planning is a difficult proposition in a country that has seen five regimes in 12 years, including the assassination of two presidents.

How much more time does Ershad have? Looking at the sorry state of the political opposition and his unchallenged position in the army, one is tempted to forecast a period of stability. Students who fought pitched battles with the police in February have gone back to the classrooms. The banning of meetings and strikes has kept the country calm for a while.

But one cannot fail to see the discontent of the urban poor and the middle class — both reeling under heavy inflation and unemployment. There is resentment against the army's heavy-handed actions and corruption. The going so far has been good for Ershad, but he will be approaching dangerous times as he prepares to shed his uniform and embark on the uncharted course of a militarised democracy.

**INTERVIEW/H. M. ERSHAD**

# Parliament must rule

**Dhaka:** Lieut-Gen. Hossain Mohammad Ershad, who took power in Bangladesh on behalf of the armed forces and imposed martial law on March 24, 1982, appears increasingly confident as he consolidates his hold over the army and as internecine quarrels and personality clashes continue to plague political parties. In an interview with REVIEW diplomatic correspondent ***Nayan Chanda*** and Dhaka correspondent ***S. Kamaluddin***, Ershad, who is 53, made clear his intention to enter politics after restructuring the country's administrative and electoral system.

The general's office in army headquarters, where the interview took place, was decorated with "Allahu" written in Arabic on a brass plate and a framed picture of assassinated president Ziaur Rahman — suggesting an attempt to seek legitimacy from the country's dominant religion and the mantle of authority worn by the late general.

Excerpts from the interview:

**Bangladesh has been born of a strongly politicised people. How do you see the prospect of depoliticising the country's society?**

What is wrong with being politicised? If politics is to be taken as the vehicle to express one's opinion, secure the rights of people and to mobilise the masses for maximising benefit for the maximum number of people, I feel a politicised people is more of an asset than a liability. The problem of our country is not of depoliticising society, but a lack of politicising the entire society. [It is] unfortunate but true that political consciousness, like many other resources of our country, is very unevenly distributed and urban based. We can see the attempt to perpetuate the redundant political system when we hear demands for the election of a national parliament before those of the local bodies.

**How would you define the role of the armed forces in Bangladesh today?**

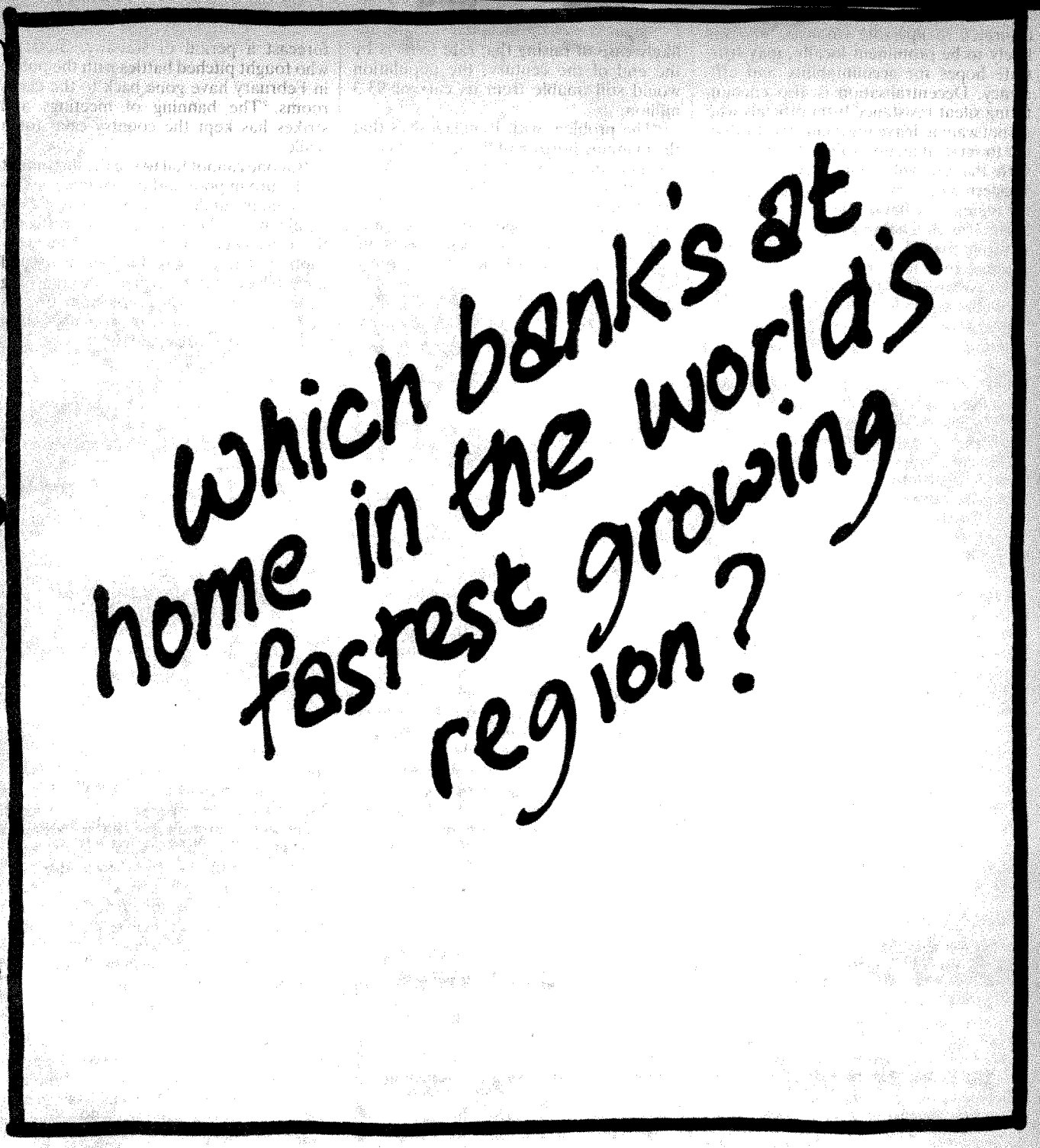
The armed forces of Bangladesh, as you know, played a leading role in our war of independence. As sons of this soil and as an inseparable part of our society, we realised that the nation had to undergo certain basic structural changes — in society, politics and the economy.

Through our experience over the past 12 years, we have realised that such changes could not be brought about by a normal political process as we practised it in this country. The country and the people needed a break. The armed forces are assisting the nation in its attempt to restructure itself.

**A year and a half after your takeover, how would you assess your success in achieving objectives you set for yourself? Your laudable intention to rid the country of corruption is doubted by the critics because of reported corruption in the army. Would you like to comment on this?**

Before assessing our success, I have to explain our objectives. We identified certain critical areas which were choking the progress of our nation. In the absence of a matured political institution in this country, true democracy — accountability of the administration to the people — never developed. Corruption, fiscal and political, became an effective barrier in the way of any real progress. In the name of socialism and equidistribution of wealth, all the factors of production and sources of income were concentrated in the hands of the party in power.

The dictum that justice delayed is justice denied found its appropriate place in the age-old colonial judicial system in Bangladesh. The system of land-holding needed immediate attention, as it was rendering thousands of people landless every year. After identifying the critical choke points, we set our objectives: evolve an administrative system in which the legislative and executive at all tiers of administration will be elected by the people and thus remain accountable to them; disentangle the economy and the productive forces from the bureaucratic tangle; [simplify] rules and regulations which will in turn minimise corruption; make justice swiftly accessible to the

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people, and give the people an effective land reform.

For all these and the return of the administration to the representatives of the people, I gave two years' time. It is against this backdrop that you have to measure the success of the present administration.

As far as your question regarding corruption in the armed forces is concerned, let me put it this way: the total number of military personnel engaged in a supervisory role does not exceed 40-50. It is not even a microscopic percentage of the total armed forces, and at the same time it would be highly irrational to claim that all these 40-50 persons involved in martial-law duties are engaged in lining their purses. As a matter of fact, this [corruption charge] is a very well-planned hostile campaign carried out to demoralise the people and create a lack of confidence in the armed forces. Besides, military rules are fairly simple. It does not take much time to bring to book any person who gives way to temptation. We have done it in the past and we will do it in the future.

**It is understood that the Bangladesh army was sharply divided between those who fought the liberation war and those who were repatriated from Pakistan. Would you say that the situation has improved since the appointment of some Mukti Bahini [liberation force] generals as ambassadors? Do you see any problem on that score?**

I think you have a little misconception regarding the entire affair. The sharp division that you mention was neither conceptual nor was it limited to the military. It was there in all sectors of the administration.

This was actually created by the two years of seniority accorded to the persons who actively participated [in the liberation war] over those who could not. Manifestation of this contradiction was sharper in the civil administration than within the armed forces. The civil officials went as far as to file cases against the government decision in the courts.

*Chanda with Ershad: religion is served by doing one's duty.*

The situation in the armed forces is different. The country went through a few major convulsions in which the armed forces, directly or indirectly, got involved. There was no distinct line dividing the freedom fighters and the repatriated officers. As is a natural sequel to such convulsions, there are always some displacements and adjustments.

**Although in your interview with the REVIEW last year you said that Islamic fundamentalism cannot flourish in Bangladesh, you seem to have contradicted yourself subsequently by taking a positive stand on Islam and its practices in this country. How do you differentiate between the Islam that is being practised, say, in Pakistan and the Islam you would like to introduce?**

I do not understand what you mean by Islamic fundamentalism. I have not changed my stance since I spoke to the REVIEW last. All I am saying is that to check the decay in our moral, social and traditional values, a human being should be guided by the dictates of his respectiv religion. After all, that's what the honourable pope is saying, too, isn't he?

When he talks about Christian values to hundreds of millions of his followers, we don't call him a Christian fundamentalist, do we? Because 90% of the population of this country is Muslim, Islam is more frequently spoken about. After all, the religion of Islam is peace unto the creator. This peace is best served by performing one's duty.

**The election time-schedule has been announced and you appear firmly committed to holding parliamentary elections on the basis of the suspended constitution. But this constitution does not provide any special role for the army. Do you intend to change it before or after the election?**

To stop the recurrence of the unfortunate convulsions from which this country has suffered in past years, I proposed a specific role for the armed forces to the people of this country. [This is] being considered and discussed at various levels. As and when it crystallises, you will get to know.

**There are more than 70 political parties and groups in Bangladesh and you are committed to reduce their number to only a few. What mechanism do you have in mind to achieve this?**

The mushroom growth of 70 or more political parties could take place only in the absence of a matured political institution and system. I am certain, through proper development of a political institution in which the baseless parties will face the challenge of true democracy, they will automatically cease to exist.

**Your plan to hold a dialogue with the major political parties has not progressed far because of their refusal to take part. Do you still intend to have such a dialogue or proceed towards the election without it?**

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with the dialogue and this is a continuous process. We intend continuing till the election. So far no political party has refused to join in a dialogue. You have wrong information.

**Would you like to comment on reports about your intention to form a political party?**

Frankly speaking, I have been too busy in clearing the age-old rust to think about my political future. At this moment, I am committed to creating the infrastructure without which no politics or political parties can stand firm.

**In view of the non-complementary nature of the South Asian economies, how do you see the prospect of the South Asian Regional Cooperation (SARC)?**

The SARC was formed because we are non-complementary. It is a vacuum in the region which we have at last begun to fill. The prospects are very good and the SARC will promote better understanding between us. I fully support it.

**Would you agree with the Asean countries' position that a Soviet-backed Vietnamese invasion of Cambodia poses the immediate threat while a long-term threat to the region comes from China?**

Any intervention is a threat to sovereignty, as Afghanistan and Kampuchea show. Our relations with China are excellent and I do not believe that it poses a threat to any country.

**Is the army quota in foreign service 25%? Do you have similar quotas for other civil service postings?**

About 25%. No, there is no army quota for other civil service [posts]. We have many retired officers. We are actually short of trained manpower and at times we engage them on a two- or three-year contract basis. You must realise one thing: there has been no recruitment in the civil service for the last eight years. We have now started recruiting in the civil service. There has not been any recruitment in the police service for the last six years. There has not been any recruitment of magistrates and lower magistrates.

**There have been reports that you are trying to form a political party with people from different political parties and acknowledging the role of the five dead national leaders — Suhrawardy, Fazlul Huq, Moulana Bhashani, Sheikh Mujibur Rahman and Ziaur Rahman.**

If the people of the country so desire and they would like me to join politics, I will. If I join politics, naturally I will have to leave uniform, but when and how has not been decided as yet. The 18-point programme is not my programme. It is the country's programme. This programme aims at economic emancipation of the people. And I gave a call to the people: please come and join me and help me in implementing these points. Anybody who wants to come and join is welcome. Whether this will form a political party in future, I cannot say.

**Some outside observers see similarities in the way you are trying to mobilise people on the basis of a programme and the way the Indonesian army formed its political group, Golkar. Is that inaccurate?**

That's totally wrong. Why do people think that way, that we are trying to impose military rule and have military governors? It's not the case. I am not the person to do that. I am the first person [to say] that parliament must be sovereign, parliament must have powers. I can assure you that the next parliament will have a lot of powers and not be just a rubber stamp. And we must have a strong opposition so that the party in power does not become an autocratic sort of party.

**Do you mean the next parliament will have more power than the last one?**

Of course. You tell me, what did the last parliament do? How many committees did it have? Nobody was accountable to the public accounts committees. Sheikh Mujib was the world's most powerful president. How do you talk about democracy? If you talk of democracy — the Indian Parliament, yes. I don't think [Indian Prime Minister Indira] Gandhi can do whatever she wants. When I met her she told me so. But it's not like here. That's why they [MPs] are not public representatives. The moment they are elected, they come to Dhaka and don't go back to their constituencies because there is no job for them. Today, what I am going to do is that the [elected] man in an upa-zilla parishad [sub-district council] is going to stay in his constituency and he is accountable to his own people.

**The upa-zilla parishad chairman is going to be an individual and not a member of a political party. But the national parliament will have political parties. How will the upa-zillas avoid interference by parliament in things like budget allocation?**

The upa-zilla parishad chairman will be answerable to the parishad and to the government. But if he does not do his job properly, there can be a no-confidence motion against him in the parishad. The parliament will not be able to interfere at all. It will be responsible only for legislation and, of course, public accounts and any other role a national parliament has.

**You are saying that the next election will be held on the basis of the suspended constitution. How do you propose to give more power to the parliament? Will it be enacted later?**

Naturally.

**By the new parliament?**

The directive must come from the government that we want the parliament to be sovereign. We want the parliament to have more powers. But the moment the suspended constitution is revived, the election will be held on that basis and the next parliament will then seek to formulate how more powers could be given by the party in power or by the government at the time. ■

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JACK FOISIE

*Bangladeshi troops after the 1971 war: a long search for unity.*

# An army is forged in a decade of friction

***By S. Kamaluddin***

**Dhaka:** Since the 1971 independence war, the Bangladeshi army has emerged as a highly politicised and assertive pressure group. The political system that was introduced after independence has undergone radical transformation — from a parliamentary democracy to one-party authoritarian rule, a shift that eventually paved the way for subsequent developments involving army personnel.

The country's soft-spoken military ruler, Lieut-Gen. H. M. Ershad, who came to power through an army-led coup less than 10 months after the assassination of president Ziaur Rahman in May 1981, is committed to return the country to democracy after introducing basic administrative changes. But the army is expected to continue playing a prominent role in the administration even after the restoration of a civilian government.

Basic contradictions within the army first surfaced during the liberation struggle in 1971, when the Calcutta-based Awami League leadership, as the dominant political body in the war effort, decided to raise an elite, politically motivated force called the Bangladesh Liberation Force, popularly known as the Mujib Bahini. This force was given special training and was totally isolated from the Bangladesh Defence Force freedom fighters, or Mukti Bahini. Mukti Bahini commanders, who had been drawn from among those who defected from the Pakistani army to join the war, were known to have opposed the formation of an elite force motivated more by politics than by actions in the field.

After Bangladesh achieved independence, the government decided to form a paramilitary force known as the Rakkhee Bahini, or security force. This downgraded the importance of the army, which until then was made up entirely of those who fought the liberation war. The Rakkhee Bahini was raised by absorbing most of the Mujib Bahini and was trained by a group of Indian army officers. Relations between the army and the Rakkhee Bahini — which received preferred treatment from the government in terms of new equipment and facilities — were far from ideal.

In late 1973, when nearly 30,000 Bangladeshi army officers and men stranded in Pakistan were repatriated under a tripartite agreement among Bangladesh, India and Pakistan, the Dhaka government suddenly decided to grant two years of seniority of service to the freedom fighters. This was a further element of friction.

However, the special treatment given to the freedom fighters did not create any permanent division — as was clear in the August 1975 coup by a section of the army, in which officers belonging to both groups participated and in which Sheikh Mujibur Rahman, in whose name the liberation war was fought, was killed. The Rakkhee Bahini, which was developed as a special force to keep the army in check, failed to do anything to protect the head of state. The Rakkhee Bahini was then quickly disbanded; its officers and men were absorbed in the army and the Bangladesh Rifles, a border security force, and were distributed thinly all over the country.

Subsequent developments — the successive coups and counter-coups which brought Zia to power and led to his assassination in 1981 — underlined the restlessness within the armed forces.

Although a number of army officers of varied ranks — mostly freedom fighters — were retired after Zia's assassination, the contradictions between those who fought for independence and those who did not have apparently been resolved without much difficulty. One young freedom-fighting major, who was retired in late 1981 and remains bitter about the treatment he received, confirms that friction between the two groups is now almost non-existent.

In November 1981, just 13 days after the election of Abdus Sattar as president, Ershad, then army chief of staff, addressed the question of the army's role directly. Ershad said then: "The experience of the past 10 years has shown that no one has succeeded in keeping our soldiers aloof from society and its turmoil. Our rank and file do not want military adventurism in politics nor do they want political adventurism in the military. They only want to be with the people, helping build democracy [and] build effective checks and balances against any future coup attempts."

While arguing in favour of giving the army a role, Ershad said that he was also trying to establish Zia's concept of total national defence. "This concept required us to depart from conventional Western ideas of the role of the armed forces," Ershad asserted. "It calls for combining the role of nation-building and national defence into one concept." Essentially he advocated re-establishment of the command structure in the army and development of a system that should be able to withstand pressure, both internal and external, to ensure continuity and stability.

The situation within the army since the imposition of martial law last year has evolved gradually. While the generals were reportedly divided on the question of a military takeover, they functioned smoothly as a team once power was taken. The Ershad regime has not tried to project the leadership of an individual. Rather, it has emphasised team spirit and collective effort. This seems to stem from one basic realisation: failure this time runs the risk of disaster.

Ershad has been able to regroup the army since Zia's assassination and has succeeded in his efforts to re-establish its command structure. The smooth replacement recently of the strategic Dhaka garrison commander, Maj.-Gen. Abdur Rahman, by the Jessore garrison commander, Maj.-Gen. K. M. A. Wahed, is a case in point. Contrary to widespread rumours, such changes have been treated by the military establishment as routine transfers. A sense of team spirit and Ershad's frequent meetings with the rank and file have further consolidated the general's personal standing in the army and increased loyalty.

The army seems to have carved out a semi-permanent role in Bangladesh and whichever party comes to power through the coming general election will perhaps have to come to some sort of understanding with the army to run the administration effectively. This may not necessarily reflect either the wider acceptability or the strength of the military as an institution. On the other hand, it perhaps indicates the failure of the politicians and parties to acquire the vision needed to shoulder administrative responsibility. They can hardly blame anybody for that.

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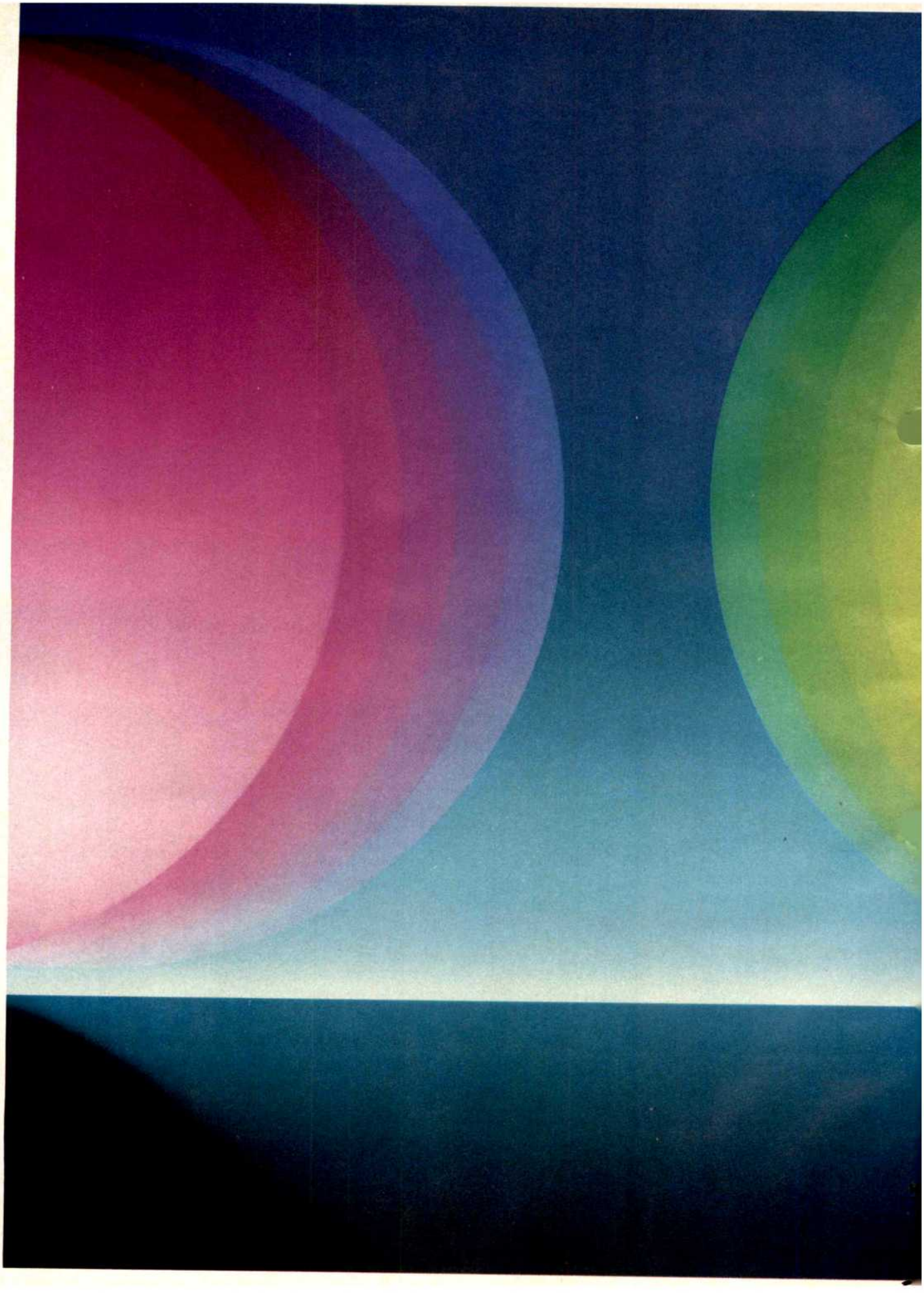

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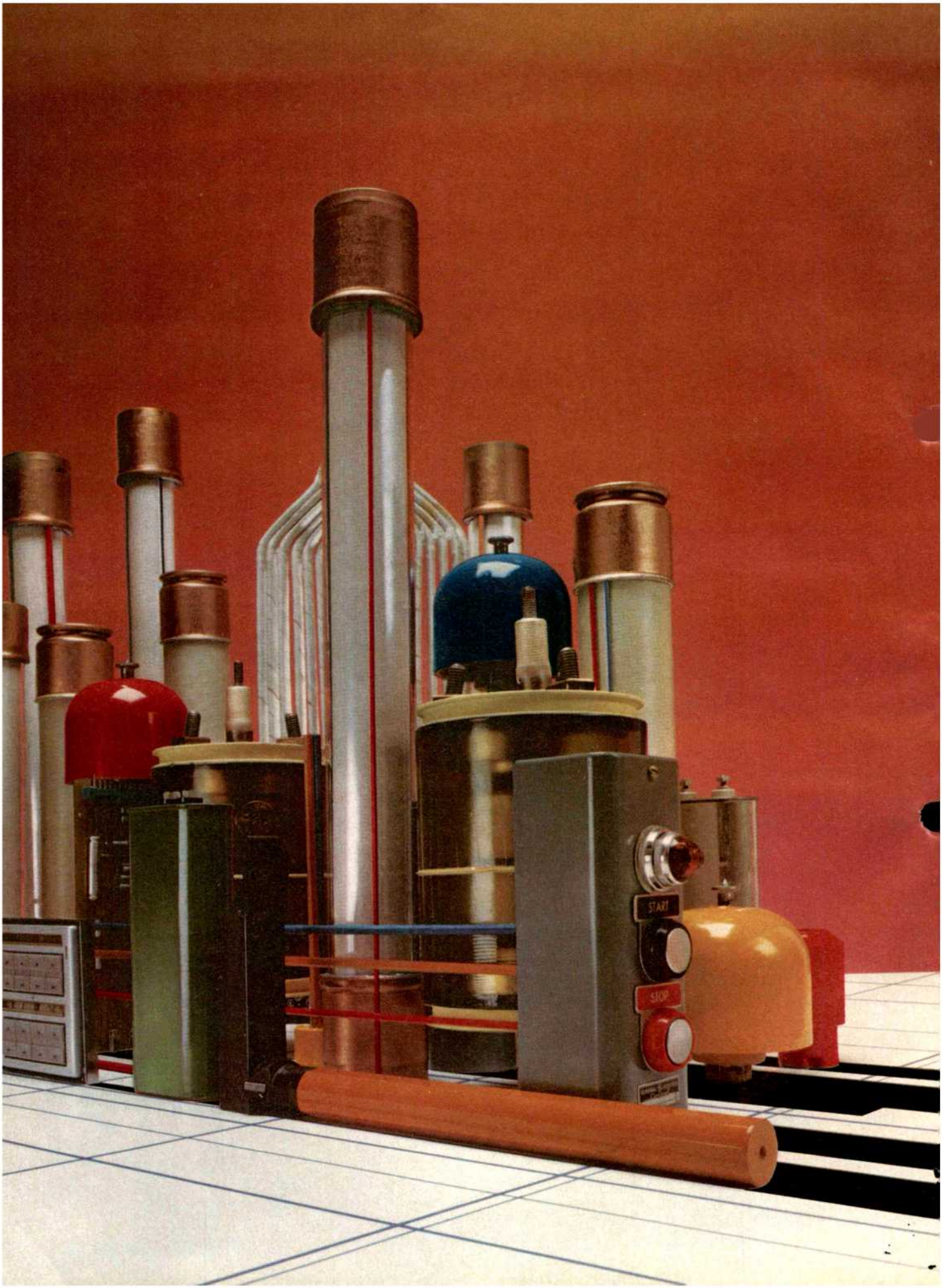
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Derek Davies

● THE war of words over the future of Hongkong is hotting up. According to this Traveller's information, duly reported in last week's REVIEW (**Hu's date with destiny**), the British Foreign Office was on the brink of issuing a statement refuting either the remarks made by China's General Secretary Hu Yaobang to a group of Japanese journalists visiting Peking, or what he was erroneously reported to have said by China's official newsagency, Xinhua. London evidently decided to go on suffering in silence, and China has accordingly gone on raising the stakes.

The current issue of the weekly English-language edition of Hongkong's pro-Peking daily *Ta Kung Pao* repeated that it was a "matter of principle" that China had to resume sovereignty "no later than July 1997" and added that the matter was "not negotiable." Nevertheless, it went on to claim flexibility in China's "respect for reality" and requoted Hu as saying that the present talks are "confined to the ways of preserving Hongkong's prosperity and stability and the gradual transition from now until the time of recovery."

However, the only flexibility this shows is *Ta Kung Pao*'s ability to rephrase Hu's words, because, according to those who reported him more accurately than Xinhua, he actually said that sovereignty would be resumed on — not "no later than" — July 1, 1997. Furthermore, he evidently said that the talks with the British concerned the maintenance of Hongkong's prosperity after 1997: a vital phrase presumably deliberately omitted by both Xinhua and *Ta Kung Pao*.

● THE British and — more importantly — the people of Hongkong now have to decide why exactly both these reflections of Peking's official line should deliberately go further than Hu himself. It is all rather reminiscent of 1967, when the Cultural Revolution spilled over into a disinterested Hongkong community, and the local "fat cat" communists fell over each other to prove themselves more radically Maoist than chairman Mao Zedong himself. They have also begun to get the leftist trade unions to parrot the Peking line. This I think is asking for trouble, for they are inviting not only the rightist unions but the great mass of the community to make it abundantly clear that they regard the prospect of Chinese sovereignty with foreboding and deeply suspect the version of self-government by Hongkong people now being peddled by pro-Peking organs. The voice of the overwhelming majority clearly made itself heard in 1967 and could well be heard again — to Peking's infinitely greater embarrassment. It would seem, however, that the "responsible persons" in Peking are proceeding with more tact and professionalism than some of their communist compatriots in Hongkong. Hu's actual words constitute a step forward — a promise not to move to alter Hongkong's status before 1997, leaving open for negotiation the questions of post-1997 guarantees and of the British role.

When all is said and done, the glue that sticks Hongkong together in its present unlikely status is money. As soon as that adhesive melts away, Hongkong would very quickly come apart — and Peking would be the loser, not London.

● ON the other hand, while it is true that Hongkong has had the good fortune to enjoy an almost entire absence of politics, the level of political naivety here is rather high. Last week this Traveller received a letter from the vice-chairman of Hongkong's Liberty and Democracy Party, Leung Chong-kit (party slogan: "LDP:HK = Your Concern"). The letter read:

> You are cordially invited to join our Press Reception where held of 52, Yuen Long Main Road 1/f., Yuen Long at 1.30 p.m. on August 18, 1983 for:
> 1. Real Solution for Hongkong future — Real Senatorship and the General-Assembly to the Self-Government to match.
> 2. (Why the missing boundary and the wall-city = Where the treaties so-called?!)
>
> Your continuing reportin about the party's efforts for Hongkong and it's people hereinafter is most appreciate!
>
> P.S.-Suffering licensed cooked-food stalls owners/dealers who conveyed their wishes to welcome you to visiting them on the spot by the way of same day — Thank you!

● IF Peking is indeed deliberately appealing to any latent reservoir of anti-Chinese xenophobia in Hongkong, its campaign received support from an unlikely source recently. The *Asian Wall Street Journal* published an article giving tips on how to purchase Straits Chinese silver, explaining the difficulty of deciding how pure any piece of silver is:

> **This makes it difficult for a buyer to ascertain the silver content of an object. Local collector David Ch'ng suggests a simple test: Flick your foreigner against the piece in question. The lower the pitch of its timbre, the higher the silver content.**

That's giving the gweilo the finger!

● THE new system of transliterating Chinese, pinyin, has still not been mastered by the Chinese themselves. A couple of friends travelling in China came across some toilet soap — one at the Yanxiang Hotel near Peking airport, the other at the Huagang Hotel in Hangzhou. The soap in English would be called something like "Son of the West" or "Western Seed" (西子) — which in pinyin should read Xije. Unfortunately there was a mistake in the romanisation. And, alas, the colour of the soap was what might be politely described as safari yellow.

● THE Japanese have not complicated their method of transliterating with anything as sophisticated as pinyin, but they continue to suffer extraordinary difficulties. Don Maybin, who lives in the town of Shozu in Kanagawa prefecture, was attracted by a new honey cheese biscuit ("Tastes great." "Is light feeling!"). The name of the biscuit is RooCee — and is obviously meant to be the Japanese version of Lucy since the quaintly worded blurb on the package begins with a quote from the Beatles' song.

> ***RooCee in the Sky***
> **How tiny, how light feelin' !!**
> **Kids of milk teeth and a grandma of artificial teeth can eat her with easy mind.**
> **Why ? Because she isn't a hard rice cracker.**
> **Of course OK for a man covered with ADELANCE !**

What the last phrase could mean, heaven alone knows — and its meaning becomes even more obscure with the knowledge that in Japan, Adelance is the brand name for a popular wig.

● ANOTHER gaijin resident in Kanagawa, Larry Retzack, writes to recall a hair-raising flight a friend of his took in Canada, back in the 1960s, on a small propeller-driven aircraft flying between Goose Bay and Moncton, New Brunswick. His friend became nervous as the aircraft met a thunderstorm and began bucketing about. The weather became worse and with mounting apprehension he asked the stewardess how long it would take before they arrived at Moncton. The stewardess replied calmly — and with a completely straight face: "I don't know. We've never made it."

Retzack was reminded of this story when he read an item in the *Yomiuri* newspaper of July 19 reporting Cathay Pacific's new non-stop service from London to Hongkong. The newspaper said that the new flight "offers the only daylight service with all the advantages of some day arrival."

● HAVE you heard, dear reader, of the new Chinese cookbook? It's called *Twenty Ways to Wok Your Dog*.

# Prize-winning memories

## Three English-based novelists of Asian origin write about their distant homelands — and earn rave reviews

*By Dick Wilson*

**London:** Our small world becomes tinier every year, as communications, trade and science force us to know one another better. The insular British, for their part, have usually considered their country, in Shakespeare's phrase, "a world by itself." Yet three young novelists of Asian origin living in Britain have recently carried off the country's best literary prizes.

Commenting on recent trends in the British novel, Malcolm Bradbury, himself a novelist and professor of literature, observes in the current issue of *Encounter*: "Many of the new writers display the cosmopolitanism of a highly variegated culture; indeed, a good number of them — Salman Rushdie, Kazuo Ishiguro, Timothy Mo — are biethnic in origin and literary influence."

DICK WILSON

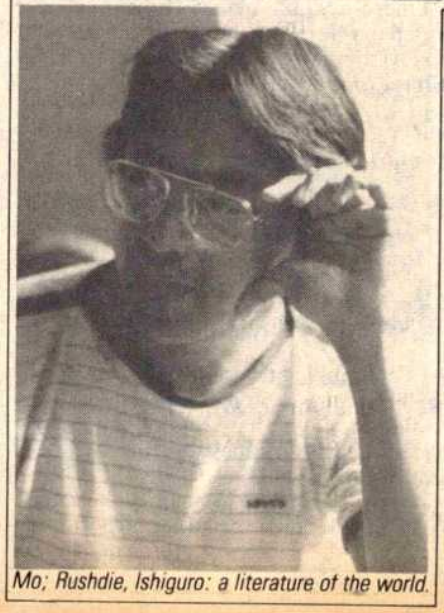
For one of these writers to be singled out in this way might be written down to accident. But for three of them — each born in one of the three great Asian cultures, though brought to England as children to acquire British education and citizenship — to go on to show the English how to write their own language beautifully requires explanation. Their collective achievement is extraordinary. Rushdie won the Booker Prize two years ago for his epic novel *Midnight's Children*, since when Mo has been awarded the Faber and Hawthornden prizes, and Ishiguro the Winifred Holtby.

Rushdie, now 36, was born in Bombay on the eve of Indian independence, something of which he made imaginative use in *Midnight's Children*. His parents later went to Pakistan, while he came to Britain to be educated at Rugby and Cambridge. His prize-winning novel is a brilliantly crafted allegory of India, built upon a partly autobiographical life story. It was received rapturously, sounding, *The New York Times* suggested, "like a continent finding its voice." V. S. Pritchett said in the *New Yorker*: "India has produced a glittering novelist — one with startling imaginative and intellectual resources, a master of perpetual story-telling." An Indian reviewer pinpointed *Midnight's Children*'s savage irony — "one of the most ferocious indictments of India's evolution since independence."

From the distance of London, Rushdie can take an irreverent view of Indian affairs and the Indian leadership, including Prime Minister Indira Gandhi. One of his sentences runs: "It has often been said that Mrs Gandhi's younger son Sanjay accused his mother of being responsible, through her neglect, for her father's death; and that this gave him an unbreakable hold over her, so that she became incapable of denying him anything." It was this kind of passage that raised some eyebrows when Rushdie was invited by British Prime Minister Margaret Thatcher to a luncheon in honour of Mrs Gandhi on a visit to London.

Again, a Pakistani general is credited in *Midnight's Children* with the view, at the time of the 1971 war with India, that there was no need to worry about the frontiers of East Pakistan, because "those damn blackies can look after themselves."

ADRIAN BAILEY



SIMON TAYLOR

*Mo; Rushdie, Ishiguro: a literature of the world.*

Yet these pieces of documentary reality are woven together with invented characters and incidents in an exuberant fabric that sums up India better than any other book. Now Rushdie has another novel out on India and Pakistan, called *Shame* which he describes as even more political than *Midnight's Children*. He would like to tackle next a novel about life in the country where he has lived for 22 years. Having criticised older British writers in the past, however, for not getting their Indian dialogue right when writing about India, Rushdie is honest enough to admit being inhibited about native English dialogue.

Rushdie lives in a tall terraced house in north London with his English wife and two children. A quiet, serious man, he is refreshingly democratic in his attitudes to people. Asked to describe himself, he replies: "I feel like an Indian writer who lives in England, or one who is sprawled across three countries, feeling at home here in England as well as in India and Pakistan."

Yet he alone of the three Asian prize winners is beginning to feel repelled by certain developments in British society. "Culturally, I feel more alien than I would have thought possible when I first arrived over 20 years ago. I simply don't like the face which the British put on display." He means the continuing racial tensions, and also the rightward trend in British politics. But with a part-English family, he believes he will soldier on in London.

The next senior in this Asian trio, Mo, is a very different character. Born in Hongkong of a Cantonese father and English mother, Mo, now 32, has lived in England since the age of 10. Unlike Rushdie, he feels virtually no identity with his Asian origin. Mo feels that Chinese society in Hongkong is "just incapable of sustaining those Western values — freedom of the individual and all the rest of it — which I admire. There's no tradition of moral individual courage in Chinese culture."

Again, Chinese culture is "very hidebound," and so static that "on the whole it can't respond to stimulus and challenge from outside." Mo has forgotten whatever Cantonese he knew as a young child and says he has no wish to relearn it: "There's nothing in the culture worth expending that much energy for."

Yet he does not feel alienated on his visits to Hongkong, where his grandfather first arrived many decades ago to make coffins. Mo's vivid memories of his decade of childhood there remain strong and warm. It is true that when he is in London, he does not like the idea of Hongkong, but

once he gets there he enjoys it. Britain seems unadventurous by contrast.

Life is never easy for people of mixed race and culture, and it is tempting to see in this quality of Mo a reason for his apparent solitude. He lives alone in a room, has few friends and professes an indifference to criticism. Surprisingly, he is a boxing enthusiast, and earns a small, steady income by reporting for *Boxing News*.

Yet Mo has produced two gently satirical, almost comic portraits of Chinese family life in Hongkong and England respectively, in *The Monkey King* and *Sour Sweet*. In *Sour Sweet* Mo shows what are usually thought to be the good features of Chinese social life as being organically linked with the bad. The loyalty and mutual help which are admired within the family become unacceptable loyalty and mutual support within the triads, or secret societies.

Having shown that he can write exquisitely about Chinese life in Hongkong, and again about the experiences of a Chinese family in England, it is natural that his third novel is going to be about English life itself. All that he will say about his theme is that it concerns the selfishness of the creative temperament. It sounds as if he is, for all his protestations of contempt for Chinese culture, very interested in the yin and yang of the human condition.

Ishiguro is, at 28, the youngest of this famous trio. Born in Nagasaki, as readers of his *A Pale View of Hills* will have guessed, he was brought to England at the age of five when his father was appointed as a cartographer to the British Government. He feels more British than the other two, despite having been educated largely in institutions where he was the only ethnically different person. "I feel foreign," he tries to explain. "I feel peculiar in the British context, and I am not typically British. And yet I don't feel Japanese either.

"I suppose I belong in England, but I have no patriotic feeling for Britain. Actually I have never felt part of any ethnic community." Ishiguro adds: "I totally suppressed the fact that I was different. I resisted finding out about Japan, because I wanted to pretend I was English." And so he is the most Anglicised of the three Asian writers.

A striking indicator of his feelings is that Ishiguro has still not gone back to Japan, which he left as a child almost a quarter of a century ago. "I always fear going back there if I am ever to write about Japan again." The image he has formed of Japan through the eyes of childhood is so bright that he fears the anti-climax of actually revisiting those places and circles. He might be left with his childhood image broken and no adequate adult image to substitute.

Unlike Mo, however, Ishiguro acknowledges a sentimental attachment to his country of origin. "I feel an irrational pride when I read nice things about Japan, and I get quite upset about the nasty things." The emotional gap is bridged to some extent by relatives who come from Japan occasionally. But since Ishiguro can neither speak nor read Japanese, he can relate only to relatives who are English-speaking. Ironically, a Japanese translation of his prize-winning novel is now being prepared.

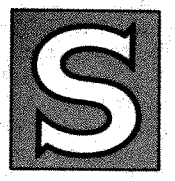
In appearance Ishiguro can be recognised as a Japanese. And yet his manner is so wholly Anglicised, so completely low-key that one has difficulty matching the Western gestures to the Eastern features.

*A Pale View Of Hills* appears at first sight to be characteristically Japanese, with its delicate understatement, its fragmentation of the narrative, its respect for the omissions and gaps that should be left in the picture. But this is no prettified contribution to English literature. The substance of the book is strong and emotionally intense.

For all the delicacy and elusiveness of Ishiguro's writing, his story of a girl's suicide and the memories it evokes is powerful and cold, full of hints of violence. Since then Ishiguro has published a story, *Summer After the War*, about a child's sense of contradiction over the unease caused by Japan's militarist past. This issue, one which a non-Japanese could hardly attempt, is "explored with cunning fictional delicacy," according to Bradbury in *Encounter*.

Ishiguro's second novel will also be about Japan, but at the same time he is working on a TV film script which is purely English in subject matter. "I have started to develop an interest," he explains disarmingly, "in English culture."

So all three of these gifted Asian novelists are beginning to tread the bridge

**Singer pursuing program of joining with local partners to enhance the growth of its Far East businesses.**

The Singer Company, which has long marketed sewing machines and other consumer durable products in the Far East, has undertaken a program to enhance its growth and strengthen its commitments in key markets of the region.

According to Mr. Joseph B. Flavin, Chairman, and Mr. William F. Schmied, President, Singer is seeking local partners for its operations throughout the Far East. Representatives of the company are conducting meetings in the area for that purpose.

"The increased local participation in our businesses as we add partners will provide new expertise in areas complementary to our existing operations. This will enable Singer to take advantage of the long-term economic opportunities in the Far East," Mr. Flavin said. "We have stressed this to our management and wish all of our employees and business associates to be aware of our program and its objectives."

He pointed out that the Far East's economy has performed well during the worldwide recession and that the outlook is for strong growth as the business environment recovers. Singer thus is positioning its businesses to capitalize on that potential, he added.

Mr. Schmied noted that Singer currently is making a major financial investment in the Far East to develop a new generation of home sewing machines that will be manufactured in the region. The machines, which will be introduced next year, will cover from the top to the bottom of the line and will be marketed worldwide, he said.

"We will, at the same time, join with local partners as part of an overall program to enlarge our current operations in the Far East, and to expand into related activities that can benefit from the strength of our local Singer organizations," Mr. Schmied stated.

from their storehouse of images of Asian infancy to the life of their adopted country. There were forerunners, of course, like R. K. Narayanan and V. S. Naipaul. Mo suggests that the difference is that "we came when we were quite young, we're writing mainstream English novels, deploying English novelistic technique."

The next step will presumably be the emergence of creative writers who are totally Asian ethnically and totally British culturally, not even retaining that crucial magical ingredient of Asian childhood which has stood Rushdie, Ishiguro and Mo in such good stead.

In future we will be reading more and more of writers like Hanif Qureshi, a very sharp young playwright from Britain's Asian community who speaks no Urdu at all and was therefore somewhat incommoded on his first visit to Pakistan recently. Such writers will be fully engrossed in the problems of British society, and quite lacking in automatic sympathy for those of other countries.

For all their insular reputation, the British are evidently warming to alien faces. It is commonplace to find Asian bylines in the media, Asian reporters and presenters on radio and TV. An Indian detective, the famous Inspector Ghote created by novelist H. R. F. Keating, has made his debut on the English TV screen, just as David Yip's *Chinese Detective* begins a re-run. Since viewers always identify with the detective, these Asian roles are important in altering British attitudes.

Perhaps Rushdie himself put the matter most succinctly when he was on the South Asian lecture circuit earlier this year for the British Council. Speaking on new trends in English literature, he would usually mention Mo and Ishiguro to make the point that it is no longer a merely English literature but "a literature of the world" to which Britain plays host. ◻

FOREIGN RELATIONS/INDIA-US

# Cloud over Tarapur

## The Reagan administration's pledge to supply spare parts to India's nuclear plants faces mounting opposition in congress

*By Robert Manning*

**Washington:** In the latest chapter in the continuing saga of Tarapur, India's United States–built nuclear power station, growing opposition in the US Congress to President Ronald Reagan's decision to help India obtain vital spare parts casts doubts on the administration's pledge to New Delhi and could undo recent progress in US-India relations.

In response to an Indian request for spare parts for its two reactors at Tarapur, which have developed serious radiation leaks, US Secretary of State George Shultz, while in New Delhi on June 30, promised India that the US "is prepared to take the necessary actions to supply those parts which are available from elsewhere." The US has been encouraging West Germany and Italy to supply parts for the 1960s-vintage reactors at Tarapur, but some of the parts may have to be obtained from the US.

The announcement by Shultz surprised officials even in his own department and in the US Nuclear Regulatory Commission (NRC). The move appeared to be essentially diplomatic — intended to remove an irritant in US-India relations. It is controversial because India has refused to accept international safeguards on some of its nuclear facilities and because of a continuing dispute over the interpretation of the terms of a bilateral nuclear agreement which expires in 1993. Since May 1980 there have been six applications for the export licences required to sell reactor parts to India by General Electric, which built the Tarapur plants, and four other US firms. All have been in a state of suspended animation because they lacked an executive branch recommendation required by law before the exports could be approved.

The Shultz announcement triggered an immediate reaction on Capitol Hill, as some 50 congressmen sent a letter to the White House declaring their opposition to the move and pledging to block any equipment exports to India. Since July, opposition in both houses of congress has continued to mount, and State Department officials concede they have underestimated its strength.

The first shot fired was a letter sent in late July to Reagan by eight US senators — primarily moderate Republicans, including key legislators such as Robert Dole and John Danforth — expressing concern not only over the proposed supply of spare parts for Tarapur but also opposing negotiations with China for a bilateral nuclear cooperation agreement. "Such an agreement, we believe, would have serious diplomatic and national security implications," the letter said of the talks with China.

More recently, a full-blown campaign focused on Tarapur has emerged. On August 4, a resolution was introduced in both the US Senate and the House of Representatives calling on the government not to export or help arrange for other countries to export nuclear components to India unless India provides stronger nuclear non-proliferation guarantees to the US. Such guarantees, the resolution states, should include "reliable assurances by the Government of India that it is not engaged in a programme to develop nuclear weapons and will not explode additional nuclear devices." It also suggested that India "extend the safeguards provisions in the US–Indian nuclear cooperation agreement in perpetuity."

While the joint resolution would be non-binding and advisory, broad support on both sides of congress, as one senate aide says, "gives the White House a warning that this is not just the usual non-proliferation crowd — we've got lots of moderate and conservative Republicans." The senate resolution was introduced by a Republican senator, Rudy Boschwitz, and a leading Democratic presidential candidate, Sen. John Glenn, but was co-sponsored by six other senators ranging from liberal Democrats to ultra-conservative Republicans such as Sen. Jesse Helms. The house resolution had similar backing.

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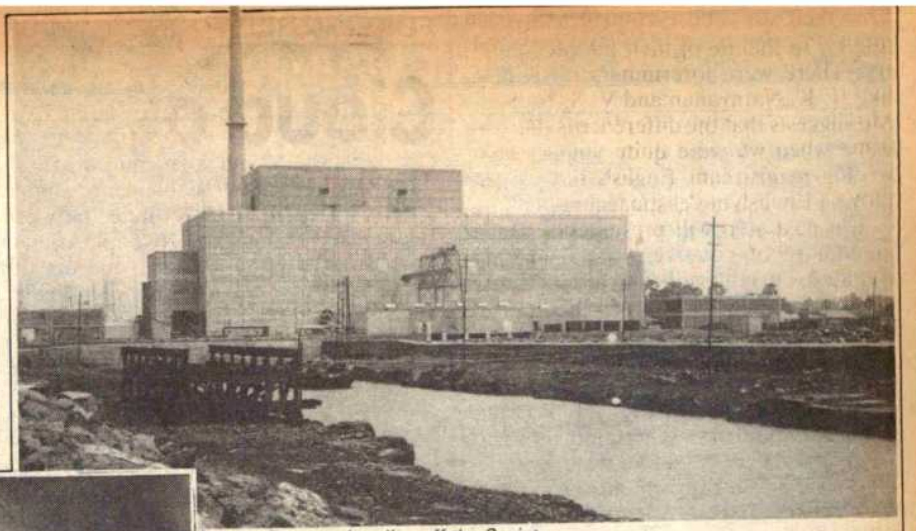
Hearings on Tarapur are scheduled for September, when the joint resolutions may reach the floor in both houses. Nonetheless, State Department officials indicate they are intent on fulfilling the Shultz pledge. Recent developments, however, suggest that congressional scepticism may increase still further when congress returns from its summer recess in September.

Barely a week after Shultz made his pledge in New Delhi, Homi Sethna, chairman of India's Atomic Energy Commission, said in an interview that India may have to start reprocessing spent nuclear fuel into plutonium by the end of the year. Sethna explained that this may be necessary because the Tarapur plant is short of storage space and the plant needs to be decontaminated.

PETER RORLACH


*Shultz; Tarapur: heading off the Soviets.*

Plutonium extracted from spent fuel can be used either as nuclear fuel or to manufacture weapons, though Sethna said India would only use the fuel to power Tarapur's two reactors. But aside from adding to India's nuclear capability, reprocessing would trigger another US-India nuclear dispute: the 1963 bilateral nuclear accord allows for joint determination of whether nuclear material will be reprocessed; US and Indian interpretations of the agreement differ.

Moreover, though the State Department has cited health and safety concerns in its decision to aid India, a letter from Glenn to Reagan disputes the administration's contention that even after India received the spare parts, the Tarapur reactors would be safe. In his letter Glenn claimed: "Nuclear experts in your administration have told my staff that the Tarapur reactors are, from the standpoint of safety . . . much worse than the worst operating plants in the US . . . I have been told that if these reactors had been operating in the US, the NRC would have closed them down years ago."

Glenn's advisers say a White House reply did not dispute these facts. When asked about the letter, a State Department official asserted: "Their reactors are not at Three Mile Island [site of a US nuclear accident in 1979], they are in Tarapur and supply a lot of power for India. They have a different set of standards."

Congressional sources suggest Reagan is more concerned with improving relations with India than strengthening the non-proliferation policy. "If India can't get the spare parts without our help," a senate aide said in an interview, "then what better occasion to use our leverage to clarify disagreements on our nuclear accord? If we squander leverage, as we often have done, then the message to the Indians is, 'we're not really serious about proliferation'."

Another congressional source was more blunt: "The directive came out of Shultz' office — we've got to get the Indians out of the Soviet camp. That's what this thing is really about." Boschwitz expressed a similar view, telling the REVIEW: "Short-term bilateral considerations are overriding our long-term non-proliferation goal."

While passage of a resolution would be a clear vote of no confidence, it is not clear that congress has the wherewithal to block Reagan if he uses executive authority. Reagan can use his presidential waiver to get around non-proliferation legislation. This was done by former president Jimmy Carter in 1980 — again with regard to Tarapur. And if the NRC recommends against granting an export licence for the parts, Reagan has the authority to overrule the commission.

Last year, the administration arranged for France to supply India with nuclear fuel to skirt legal constraints, and it is now encouraging the Europeans to provide spare parts. Both West Germany and Italy have similar reactors supplied by the US which have been closed down. The spare parts could be cannibalised from those reactors or provided by General Electric subsidiaries in Europe. The president can approve third-country transfers of US-supplied nuclear components without support from congress.

Earlier, the administration had quietly sounded out some in congress on the idea of loosening export controls on "safety-related" components. But one NRC commissoner, Victor Gilinsky, said in an interview: "Practically everything in a reactor is safety-related." There is little chance of getting congress to approve such a move. Another possibility is to export the parts to a country such as France, and then have them re-exported to India. Indian diplomatic sources suggest that they have been engaged in extensive discussions with the Europeans on spare parts.

Another snag for the administration is that in order to implement a legislative waiver, as it has been contemplating, it would be required to inform congress of classified information regarding India's Rajasthan test site (RVIEW, July 7), where India detonated what it called a peaceful nuclear device in 1974. Legislation requires the US to cut off nuclear exports to nations which the president finds are "engaged in activities involving source equipment relating to manufacture or acquisition of nuclear devices or special nuclear material and having direct significance for the manufacture or acquisition of nuclear devices."

Reliable sources report that India has in recent years sunk additional shafts at the Rajasthan site. Most analysts doubt that New Delhi is preparing a second underground test, but this has not assuaged fears in congress. State Department officials are tight-lipped on what mechanism the administration will use to skirt legislation to get parts to India, but one said: "We'll likely try to colour the final decision in a way to defuse the issue."

In the event of an all-out confrontation in Washington, it is not clear what cards congress has to play. A landmark US Supreme Court decision in June appears to take the congressional veto away and put ultimate authority back in the White House. In the past congress could have overridden a veto by a two-thirds vote in both houses within 60 days. Now it appears that congress lacks any veto of its own. Another possibility is that congress could pass a new law prohibiting the exports to India. But again, Reagan could veto it, and Capitol Hill's ability to override it is in doubt.

The Tarapur affair, which has been Washington's most controversial nuclear export case, may test the supreme court decision. It is highly unlikely that India will alter its position on the bilateral nuclear agreement. The key areas of disagreement are over reprocessing rights and on the application of safeguards "in perpetuity" after the agreement expires in 1993. Nonetheless, analysts here say it is likely that the administration will win the battle with congress, probably by the end of September, though it may do so at a high political price. ■

## RICHARD HUGHES

Please don't laugh. The latest — non-religious — project of the self-appointed apostle-founder of the Unification Church, the Rev. Sun Myung Moon, is to help dig a tunnel linking South Korea and Japan. It will, of course, have no connection with the secret tunnels that North Korea likes to dig under the demilitarised zone, and will naturally be essentially peaceful — though North Korea's disguised gunboats would almost certainly try to blow it up if it ever got under way.

The South Korean and Japanese governments have just learned unofficially that Moon's International Cultural Foundation wants to leap ahead of the dragging Anglo-French idea of a "Chunnel" — a tunnel under the English Channel — by building the underwater highway. Neither government has yet made any comment.

The tunnel would run from Yobiko township in Japan's Saga prefecture to Pusan in South Korea via Iki and Tsushima islands. Stretching 230 kms, it would be the longest undersea tunnel in the world. Moon has established a "research society" for the project, presided over by Yasuo Sassa, professor of geology at Hokkaido University. According to a report in the Japanese newspaper *Shukan Bunshun*, the society has already begun acoustic soundings of the seabed around Tsushima island, the scene of the decisive naval battle in the Russo-Japanese War of 1904-05.

Sassa is treating the idea seriously. He reckons the tunnel is "technically feasible" and that construction will be guided by completion of the tunnel between Japan's Honshu and Hokkaido islands — though that is only a quarter the length of the Yobiko-Pusan daydream. "When our plan is realised," he said, "the dream of an East Asian community embracing Japan, North and South Korea and China will come true."

The secretary-general of the research society, Yoshiteru Hara (another Japanese), looks even further ahead: "The tunnel will be the first part of an international highway that eventually would link the whole world. Hatred among nations will disappear if people will offer their blood and sweat to dig this tunnel."

*Moon: tunnelling for peace.*

Of course, more than blood, sweat and tears is involved. The estimated cost of the tunnel is ¥3-4 trillion (US$12-16 billion), about a tenth of Japan's 1983 national budget. "The Rev. Moon is prepared to contribute his entire fortune should the project help to promote world peace," said Hara piously.

Unfortunately, the tunnel revelation broke a couple of weeks after a reunion in Washington on July 23 of surviving correspondents who had covered the 1950-53 Korean War. My Tokyo columnist-adviser, Bob Horiguchi, who sent me the report about the tunnel, was also present at the Washington reunion and airmailed me the list of more than 100 correspondents — so many old mates! — who attended with their wives and friends.

The tunnel notion would certainly have sparked disputation at the banquet, where many former barefoot reporters would have remembered those dull, crowded flights between Tokyo and Pusan as the North Koreans pushed south past Seoul. Horiguchi records: "It was like a homecoming of the Korean War crowd — the difference being that we had all developed paunches and lost our hair. Surprisingly, there were no drunks." (In view of that, maybe it's a good thing that I wasn't able to get there.)

As always, my prediction is that the proud state of Korea will eventually restore its non-communist unity. There is always a light at the end of the Korean tunnel.

**FOREIGN RELATIONS/US-ASEAN**

# Search for substance

### The Five plan to ask Reagan for military aid in Cambodia, but Washington is reluctant to get involved

***By Rodney Tasker***

**Bangkok:** The Asean members are strongly urging the United States to supply arms to the two non-communist factions of the Cambodian resistance coalition. This will be one of the main issues on which Asean foreign ministers will expect a reply from US President Ronald Reagan when he visits Indonesia in early November.

The Five have already put their request to the Reagan administration through various channels. In common with Japan and some West European countries, the US has so far limited supplies to the two non-communist factions of the Coalition Government of Democratic Kampuchea to humanitarian aid. It refuses any dealings with the third faction, the communist Khmer Rouge, because of its brutal treatment of Cambodians while it held power from 1975 until its ouster by Vietnamese troops in December 1978.

The move to press the US to supply arms to the Cambodian resistance is apparently being led by Thailand and Singapore. While some Asean members, particularly Indonesia and Malaysia, may be less enthusiastic about the drive, there is a general feeling among the Five that the US is not active enough in its support for Asean's insistence that the Vietnamese withdraw their 160-180,000 troops from Cambodia and allow Cambodians to choose their own government. Asean is also unhappy that the only significant military supplier for the coalition is a communist power, China.

While Peking publicly stresses that it sends military supplies to all three coalition members, the Khmer Rouge — with more than 20,000 troops, the most militarily powerful faction — is given all the arms and supplies it needs while the other two groups are basically limited to small arms and ammunition. The Five would like to see a diversification of military supplies and, fully aware of the near-universal dislike for the Khmer Rouge, hope to bolster the military punch of the non-communist factions: the 7,000-plus guerillas of former Cambodian prime minister Son Sann's Khmer People's National Liberation Front, and the much smaller army loyal to Prince Norodom Sihanouk.

Washington has been nervous about the prospect of being seen as once again having a military stake in Indochina. It also has more pressing military priorities elsewhere, such as in Central America, North Africa and the Middle East. So it is an open question as to how Reagan will react to the Asean appeal.

*Reagan: a symbolic gesture.*

The US views Reagan's visit to Indonesia, where he will meet all five Asean foreign ministers, and to the Philippines and Thailand as mainly a symbolic gesture to demonstrate Washington's unwavering support for Asean. When US Secretary of State George Shultz attended the annual Asean foreign ministers' meeting in Bangkok in June, he asked which Asean country Reagan should visit. The unanimous reply was Indonesia, because it is the current chairman of the Asean standing committee.

Reagan's Asean trip is brief enough: one day in each of the three scheduled Asean capitals before moving on to South Korea and Japan. So the Five would like something more concrete to emerge than mere words of support from the US president. The subsequent inclusion of Manila and Bangkok in Reagan's itinerary was a reflection of purely bilateral concerns — Philippine President Ferdinand Marcos will use Reagan's visit as a further endorsement of his regime, following his own highly successful visit to the US last year; the Thais, facing Vietnamese troops on their border with Cambodia, want to shore up Washington's security commitment under the 1954 Manila Pact mutual-security treaty.

Shultz said in Bangkok that Reagan would like to meet all five Asean heads of government in Jakarta. That was turned down by Asean officials mainly because it would require the five heads to have their own meeting at the same time, and there is currently no pressing issue to warrant such a summit. It would also have suggested that the Five were marching to a US tune — a move that would have given Vietnam ample propaganda to use in the Southeast Asian situation.

Consequently, by the end of the Asean foreign ministers' meeting with Shultz it was agreed that only the foreign ministers would greet Reagan in Jakarta. Although this is less than an Asean summit, there are still some in official Asean circles who view the meeting as a diplomatic forelock-touching exercise by the Five to the US president. This is one reason Asean officials want to be seen asking for something specific — more active support for the Cambodian coalition.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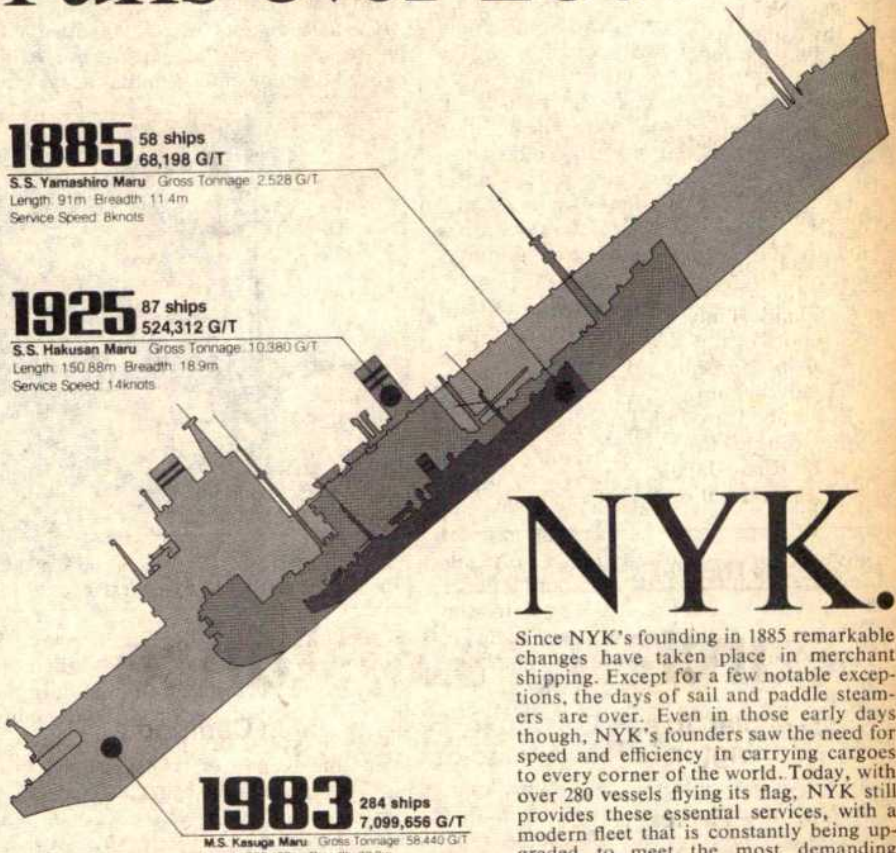


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# Phoenix from the ashes

## A new city arises from a scene of devastation — and helps to wipe out bad political memories

*By David Bonavia*

**Tangshan:** The most modern city in China now stands where seven years ago there was one of the most appalling scenes of devastation the world has known. The earthquake which struck Tangshan in the small hours of the morning of July 28, 1976, left it looking like Hiroshima after the bomb. Now it stands for the leadership's vision of China in the future. Barely a single building more than seven years old is left within a radius of some 30 miles. Even in the rural areas, all the houses are new, some tastefully decorated with traditional wall-paintings and colourful ceramic tiles.

The biggest cement factory in China, bought from Japan, will soon be aiding the final reconstruction effort. The city's population now exceeds the 1976 level, due to an influx of workers for the building spree. Some of the city's big industries, however, have been relocated 15 miles outside the city, with their own residential estates. The new Tangshan consists mainly of five-storey apartment buildings, already housing nearly 900,000 people. An additional 300,000 are living in temporary brick-and-stone courtyard buildings, but expect to be rehoused within the next couple of years.

Hospitals, a porcelain factory, schools and kindergartens all have spanking new premises with a spaciousness not common in Chinese cities. Spacing the buildings out makes it easier to evacuate people and operate emergency services in case of another quake. New buildings, officials say, are all designed to withstand a Force 8 earthquake on the scale used by the Chinese. The 1976 event was Force 11, and nothing can withstand that. The huge ferro-concrete structures of the former rolling-stock plant have been left as a memorial in the tangled piles where they fell.

One of the fault-lines was 8 kms long, and in the grounds of a former middle school one can see trees pushed more than 1 m. out of alignment but still growing. Concrete blocks containing measuring instruments now keep a necessary vigil to listen in to seismic movements along the fault. Apart from the incredible loss and suffering, the Tangshan earthquake was a political event of some importance.

It occurred at a time of immense political stress, and for the common people of China it was a clear sign that then chairman Mao Zedong's life was nearing its end. He died on September 9 of the same year. Such superstitions regarding natural portents are still widespread, especially among the peasants. And there had recently been a shower of meteorites in Jilin province — another well-known augury of disaster.

In addition, the leftist leadership in power during Mao's last months had been making self-congratulatory propaganda about some minor successes scored in mass observation techniques as a means of predicting earthquakes. Tangshan made them look foolish, for it was portended by nothing more than an intense heatwave and certain signs of neurosis among chickens. Rises in the water table were put down to recent rains. No warnings were issued. The people went to bed, many of them never to get up.

Casualty figures list 242,000 dead in the entire region of the earthquake, which caused damage and casualties as far afield as Peking, some 145 kms away. In Tangshan there were 148,000 killed and 81,000 seriously injured. These figures fall short of the estimate of 500,000 casualties widely accepted up to now. Figures are scant, and even foreign seismologists visiting China were refused access to Tangshan during the years of reconstruction. The first foreign journalists were admitted in mid-August this year.

*The rolling-stock plant: a memorial of destruction.*

Asked why China had refused international offers of aid after the quake, a local official said: "In my opinion it should have been accepted." But Mao was still alive, and "self-reliance" was the watchword. About 10,000 people were evacuated for medical treatment in Peking, whose own hospitals were busy enough. What was done with the dead is not disclosed — most likely they were incinerated in heaps. The authorities say there were no epidemics, even though it was July and the northern Chinese summer was at its height.

For seven years the whole area was closed off except to officials, residents, rescue teams and construction workers — more than 100,000 of whom poured in to replace the dead and have now settled in the new city. Mao's wife Jiang Qing tried to make the rescue operation redound to the credit of herself, her associates in the Gang of Four and the political line they were pushing.

A booklet published shortly after the quake said political activists in Tangshan decided early on that criticism of the disgraced Deng Xiaoping must take priority over food and shelter. Three leftists actually commandeered an ambulance and drove helter-skelter to Peking to "report to Chairman Mao and the central committee" — who had already been informed by radio about the disaster, and felt the shock themselves. Such behaviour by the leftists must have helped convince senior military commanders and politburo members that whatever their own political orientation they could not possibly let Jiang and her friends take over the leadership from the dying Mao.

This was not the first time Tangshan had been a political trouble-spot. It grew up mainly over the past century with the exploitation of coal at the Kailuan mines nearby, a British-backed enterprise which had the first railway track in China. The Ming dynasty porcelain plant at Tangshan was enlarged and converted to make vulgarly designed export ware. The textile, rolling-stock and steel industries were developed. By 1975 the city was an ugly, overcrowded and heavily polluted industrial centre. In the early stages of the Cultural Revolution a serious factional conflict occurred, resulting — it was stated at the trial of the Gang of Four in 1980 — in the deaths of nearly 3,000 people and the public humiliation of the local leadership.

Since 1976, the people of Tangshan have had more important things to worry about than factional politics. The leading municipal officials appear to be serious and practical people with the best interests of the new city at heart. What they have built is the Chinese vision of the early 21st century. The vision is not inspiring as a concept in city planning for an advanced country. There are still problems with gas and water supply.

The smart-looking new apartment blocks will soon be stained and run-down, with broken windows for which replacement glass cannot be obtained. The garden areas are unkempt. Plaster is already peeling off the walls in the hospital wards. Air pollution is serious. Nonetheless, if nature leaves it alone, Tangshan shows a picture of a socialist future which could, to some extent, work.

# MERCHANT BANKING '83

(Top) *Hokkaido Takushoku Bank's cash dispenser corner in Sapporo; ¥:US$ rates in a Tokyo street.*

UPI

**OVERVIEW**

## A growing international yen for the ¥en

***By Nobumitsu Kagami in Tokyo***

*"It is much easier to remain a key currency than to become one and it is even quite difficult to stop being one."*
— **Fred Bergsten:** The Dilemmas of the Dollar.

Nothing is more relevant than this simple fact in explaining the persistent strength of the US dollar, or its failure to weaken this year against the background of a substantial deterioration in the United States current account. It is indeed one of the prerogatives of a key-currency country to receive a significant amount of foreign money and thereby to be able to finance its external deficits and domestic undersaving. Without deficits in the current balance of the key-currency country the entire international monetary system might even become unstable.

All that is needed is a firm resolve on the part of the key-currency country to maintain international confidence in the underlying soundness and stability of its currency and economy. Once this condition is met, reflow of capital to finance its current external deficits becomes automatic. Although the expected size of the current-account deficit in the US looks enormous in absolute terms, from the systemic point of view it is certainly manageable, representing just 1% of total world current transactions. The same can be said about seemingly huge surpluses expected for Japan's current account this year and next.

It is indeed in the nature of a key currency for it to be overvalued, but the resultant loss of competitiveness in merchandise trade will eventually undermine the industrial base of the key-currency country. A gap will emerge and widen between its continuing dominance in the financial world and declining industrial competitiveness until it reaches a point where the systemic stability becomes seriously endangered, but this will initially enhance the attractiveness of the key currency because of the haven-of-safety considerations. As a result, dominance of the

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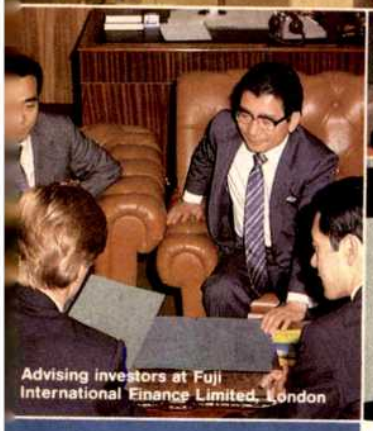
Talking with a customer at Hong Kong Branch

Foreign exchange operations in Fuji Bank's Singapore Branch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US dollar will persist "since history amply demonstrates tradition and inertia bear heavily on monetary practices" (Bergsten again) and, in its process, the dollar overhang will again be built up. Since it is difficult to fine-tune confidence, things can change only in an explosive manner.

So long as confidence is maintained in the present key currency, the US dollar, it is inevitable that pressures fall heavily on the second international currency in line, namely the Deutschemark, and this seems to explain its relative weakness against other competing currencies. Although the weakness of the Deutschemark has dragged the yen down with it (a recent study by Mitsubishi Bank has found that yen:dollar exchange rates can better be explained when the movement of Deutschemark:dollar exchange rates is taken into account), the cross-rate between the Deutschemark and the yen has moved substantially in favour of the yen reaching ¥92:DM1 recently. Although the yen has historically never broken the ¥90 level against the Deutschemark since the mid-1960s, there is a good chance that, in the next few years, this long-standing resistance level will be broken as the yen gradually takes over the Deutschemark as the second international key currency; in a competition between non-dollar currencies, economic fundamentals appear to be far more relevant than is the case with competition with the US dollar and they are likely to be more favourable for Japan than for West Germany. Here, this writer is not simply looking at Japan alone but also at the brighter prospects for the entire region of the Pacific Basin than for Western Europe. In this respect, it is perhaps worth remembering that the rise of the Deutschemark to second key-currency status during the 1960s was accompanied by a strong economic revival of Western Europe.

The continuing strength of the US dollar clearly has the systemic support of the present international monetary system and the emergence of US current-account deficits will only have the effect of stabilising the system rather than weakening the US dollar for the time being. To be sure, there will be corrections to overshootings and undershootings of individual currencies but the overall tone of the foreign exchange (FX) markets throughout the world will be one of reasonable stability for the US dollar. At the same time, relatively high US interest rates will persist and the rest of the world will have no choice but simply to adjust and learn to live with them.

Against this medium-term background, only a modest and gradual appreciation of the yen against the US dollar — 10-15% at most from recent levels — is expected over the next two years. Surpluses expected in Japan's current account — US$22 billion and US$16 billion respectively for 1983 and 1984 — will be sufficiently big to offset likely deficits in the long-term capital account resulting in a small surplus or equilibrium in the basic balance. Since the basic balance (the sum of the current and long-term capital accounts) largely determines the supply and demand equation in FX markets, this prospect should provide for an upward bias for the yen over the period of the next two years. Since the beginning of the floating regime, a surplus in Japan's basic balance has, without exception, always been accompanied by a significant appreciation of the yen over the course of the year. The recent resilience of the yen in the face of a marked reversal of the US monetary trend can be seen as a clear demonstration of the importance of these underlying forces at work; the yen is likely to be higher at the end of this fiscal year (March 1984) than it was at the end of March this year when it was ¥239:US$1.

Nonetheless, a runaway appreciation of the yen of the sort seen during 1977 and 1978 is unlikely to recur this time because of sizable long-term capital outflow from Japan. In 1982, net long-term capital outflow from Japan amounted to US$12.2 billion and it is expected to increase to nearly US$17 billion this fiscal year. The US$12.2 billion net outflow last year consisted of a US$28.2 billion outflow of Japanese capital and a US$15.9 billion inflow of foreign capital into Japan. Of the US$28.2 billion Japanese capital outflow, US$4.5 billion was accounted for by direct investment abroad, US$3 billion by trade credit, US$9.2 billion by external loans and another US$9.2 billion by portfolio investment mostly in foreign bonds. Most of the inflow of foreign capital was in Japanese securities equally divided among equities, bonds and external bond issues by Japanese borrowers, each amounting to around US$5 billion.

The first three components of Japanese capital outflow, namely direct investment abroad, trade credit and external loans, are likely to increase steadily ranging between US$15-20 billion a year — roughly equal to the underlying rate of current-account surplus. Therefore, the swing factor for Japan's basic balance is the movement of portfolio capital in and out of Japan. Japanese investment in foreign bonds has increased sharply since 1981 and will continue to increase steadily reflecting the long-term strategic decisions by Japanese financial institutions to diversify their portfolios internationally. The timing of their investments (so far) has been stabilising for FX rates generally, increasing when the yen becomes strong and decreasing when the yen is weak. In the context of the present market sentiment, it looks almost certain that if the yen rises beyond ¥230 and moves towards ¥225-220, we will see a considerable pick-up in international-investment activities, thus moderating any upward movement of the yen that may occur in the short run.

Foreign investment in Japanese bonds has been reasonably stable averaging about US$500 million a month. Foreign investment in Japanese equities is rather directly related to the movement of Tokyo stock prices and influences the exchange rate ac-

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tively rather than responding to it passively. With Japanese corporate profits expected to rise sharply from the second half of this fiscal year onwards — up 20% in 1983 and 30-40% in 1984 — foreign investment in Japanese equities is likely to increase substantially providing a favourable influence on the yen-exchange rate.

Looking beyond the next couple of years, the change which is beginning to become apparent in the structure of Japan's balance-of-payments and its overall external position will have profound implications for the long-term FX-rate outlook. Traditionally, Japan's balance-of-payments has been characterised by the persistence of large trade surpluses accompanied by constantly widening deficits in the invisible account. A major reversal of this pattern, however, occurred in 1982. At US$20 billion, the trade surplus was slightly smaller than in 1981 but the invisible deficit was reduced by as much as US$3.5 billion thanks largely to a turnaround in the investment-income account from a deficit of US$400 million to a surplus of US$2.2 billion.

This reversal in the investment-income account is the logical consequence of Japan's increasing net creditor position vis-à-vis the rest of the world, which amounted to US$25 billion at the end of 1982 after increasing by US$14 billion during the course of the year, an amount roughly equivalent to the current-account surplus and the surplus in errors and omissions. With the current account expected to remain in the yearly surplus range of between US$15-20 billion for some time, the net creditor position will increase sharply: with prospective huge current deficits for the US, Japan could become the largest net external creditor before this decade is out and this will further reduce Japan's invisible deficits. In fact, it would not be too surprising if, 10 years from now, Japan had a surplus in the invisible account and, since the balance of payments has to balance in the long run, this should mean that trade surplus will be reduced substantially and even turn into a deficit.

The likely improvement in the invisible account — which is, in general, price-insensitive — means that the burden of exchange-rate adjustment will have to fall disproportionately on merchandise trade. The yen will become overvalued in terms of competition in merchandise trade and this seems to be the experience of countries like Britain and the US which have gone through a similar process of the balance-of-payments transformation before. The pressure in this direction for Japan may be even more acute because its import demands for energy and raw materials — which account for 70% of its total imports — are unlikely to rise very much, reflecting the rapid sophistication and the increasing service orientation of its industrial structure. Although the long-term upward movement of the yen will be punctuated from time to time by occasional

# The misalignment of the dollar and the yen

***By Hikaru Kerns in Tokyo***

The yen-exchange rate is partly a political issue. Many foreign businessmen believe that an undervalued yen, which leads to cheaper exports, is a result of Japanese Government regulations — and not primarily the work of market forces. The following was spoken in testimony before the United States Senate Foreign Relations Committee in April this year.

"Looking back at the past year, I think we can say that without question one of our most serious problems in Japan has been the misalignment of the [US dollar] and the yen . . . the undervalued yen added fuel to the flames of international resentment against Japan, worsening our trade relations with the United States and increasing protectionist sentiments."

Lee Morgan of Centerpillar Tractor Co., representing the Business Round Table (BRT), was quoting Isamu Yamashita, chairman of Mitsui Engineering and Shipbuilding Co., to bolster a demand that the US Government "take some initiatives" to correct the problem of a yen: dollar misalignment. Morgan says: "Many analysts agree that the yen:dollar exchange rate should today be no weaker than ¥200:US$1."

In November last year it fell to ¥278:US$1, largely on the attraction of high US interest rates which Japanese capital sought. A less well-publicised reason was the continual demand for dollars from Japanese importers doing dollar-denominated trade. But when US interest rates began to decline, so did the US dollar, but only at present to about ¥240:US$1, not enough to satisfy critics. It is becoming increasingly clear that the Tokyo government is in a dilemma.

It does not want a severely weak yen for political and certain economic reasons. It has taken palliative steps such as preventing a decline in short-term interest rates and holding the Bank of Tokyo's (central bank) discount rate at a time when Japan is awash with liquidity. But foreign critics are now concentrating on the basic control mechanisms of the Japanese financial system.

Morgan says further in his testimony that the interest-rate spread between the US and Japan is a major factor affecting the value of currencies and that conscious insulation of the yen from worldwide interest-rate trends "exaggerates the differential that would derive merely from the high rate of personal Japanese savings." This is a frontal attack on two of the most jealous powers of the Japanese financial authorities, namely the regulation of interest rates and international capital transactions. Any changes would affect bureaucratic careers and bank profits.

But far more importantly, the assault is on the idea that the government ought to guide and design the economy at strategic points such as it has been doing in finance. The Ministry of International Trade and Industry (Miti) has received the same kind of criticism for nurturing industries.

Exemplifying the views of many foreign businessmen, the BRT believes that pressure must be put on the government to force them to liberalise the capital market. Morgan made the following suggestions for the Japanese to adopt in order to allow a complete internationalisation of yen financial markets:

- Elimination of the yen interest-rate ceilings on loans and deposits in Japan.
- Removal of restraints on the issuance of yen bonds and on short-term, yen-denominated bank borrowing by foreign investors.
- Increase in the limits on certificates of deposit denominated in yen.
- Establishment of a treasury bill market in yen open to foreign investors.
- Allowing importers to finance in yen rather than having to borrow dollars to pay for imports.
- Allowing other governments to hold more of their reserves in yen.
- Undertaking aggressive foreign borrowing with the proceeds converted to yen.
- Allowing purchase of yen in the forward-exchange markets without restrictions.

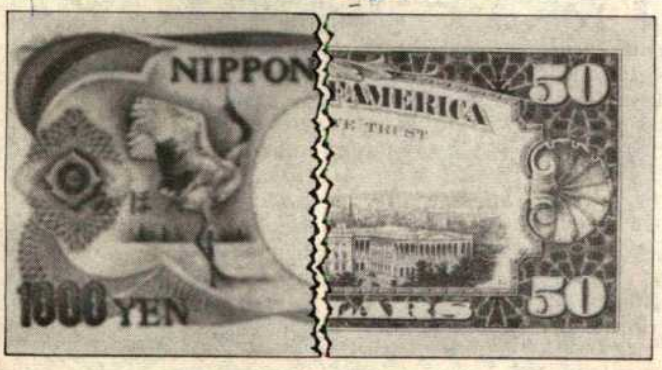
Morgan went further than many financial liberals were prepared to go by also suggesting, for example, that the US and Japan undertake joint intervention in support of the yen, or that — for shock effect — the US impose a surcharge on Japanese goods. This may have been a ploy to make the other demands seem more moderate, but the Japanese were not amused. The Federation of Economic Organisations (Keidanren) drafted a 36-page rebuttal in small type within two months of Morgan's testimony.

The Japanese argued that the problem is in the strength of the dollar rather than in the weakness of the yen. They point to the relative weakening of all major currencies against the dollar

flare-ups of commodity prices, the underlying trend now appears to be firmly in place.

Growing international investment coupled with a rising yen will lead eventually to an increasing role of the yen as an international currency. The process will also be greatly facilitated by further progress in the liberalisation of the Japanese financial market which is currently proceeding at a revolutionary pace by Japanese standards. As Japan's direct investment abroad expands, an increasing proportion of Japanese exports will be denominated in yen (at present 40% of Japan's exports are denominated in yen). Increasing imports of finished goods, responsive to changes in exchange rates, will also raise the proportion of yen-denominated imports which now account for only 2-3% of total imports.

Monetary demand from abroad for yen-denominated financial assets will consequently increase, resulting in a greater inflow of short-term capital into Japan. The Japanese financial market will begin to perform an international banking role by recycling the short-term capital inflow into long-term overseas investment. Banking profits which will accrue under the normal circumstance of a positive-yield curve will further increase Japan's surplus in investment income. Once this dynamic process is set in motion, upward pressure on the yen will become uncontainable, especially if and when the present confidence in the US dollar begins to be seriously undermined by the continuing failure of the US authorities to redress the fiscal imbalance.




in recent years. They also argue that other factors besides trade and current-account balances should be taken into consideration when judging whether exchange rates are unnatural in the light of, for example, relative prices, relative interest rates, relative income levels, money-supply developments, investment flows, political risk and changes in expectation in all of these.

Japan, as the Keidanren attempted to show, has made progress in liberalising its financial markets and intends to continue doing so. The Keidanren rebuttal quoted US Government officials and reports which have generally absolved the Japanese of manipulating the yen-exchange rate towards weakness. The assault has been blunted but not defeated and the problems remain: so do a few questions.

Japan is heading towards a current-account surplus this year of US$20 billion. Its capital outflow will probably decline this year to about US$6 billion from US$10.7 billion, assuming that US interest rates do not go climbing up again in leaps and bounds. Japan will have one of the lowest inflation rates among industrialised countries and its national income will continue to rise. Most notably, Japanese export competitiveness will probably continue to improve. But the course of the Japanese yen may not give foreign competitors the kind of dramatic relief they seek.

Capital seeking financial returns from securities is probably the critical factor determining yen-exchange rates. Yet psychological expectations — of what others think the equity or bond markets will do, or what others think the yen-exchange rate will be like — is often at the forefront of the minds of fund managers, investors and foreign-exchange dealers. The internationalisation of the yen will mean at least one thing: greater volatility in exchange rates. More yen will be in the hands of foreigners free from the control of the Japanese financial authorities.

**FOREIGN EXCHANGE**

# A lethal market trading US$200 billion daily

***By Robert Valentine in Hongkong***

Foreign exchange (FX) has become a topical, not to say controversial, subject among regional merchant banks in the past year. A number of sharp parity changes have taken place in the region without much advance warning, notably in Australia and the Philippines; the Hongkong dollar has captured world headlines with its dramatic drop and the US dollar stubbornly refuses to decline in accordance with what are deemed by experts to be economic fundamentals. Even the yen remains weak, though Japan appears to be heading for a trade surplus of astronomical proportions. Furthermore, FX has become much more important as a potential profit earner to merchant banks, following the decline in both regional and local lending opportunities, particularly in Hongkong; so a great deal of attention has been focused on dealing rooms in Hongkong and Singapore.

There is little doubt that world FX markets have become increasingly volatile in the past decade; and this is hardly surprising given that total trading volume is now estimated at over US$200 billion a day, compared with a value of some US$10 billion a day attributable to the international trade in goods and services. Furthermore, it is estimated that turnover has risen some 25-fold since 1970, assisted by the demise of fixed-rate exchange rates. In this context, it is hardly surprising that figures from the International Monetary Fund show that the average variability of US dollar exchange rates has increased significantly over the past decade, with some startling increases evident in individual currencies: for example, the yen:US dollar rate has more than doubled in volatility since that period. Therefore, time is ripe to take a closer look at FX markets and examine the state of the art vis-à-vis currency forecasting and hedging.

The Hongkong dollar appears to be an appropriate starting point. Not only did the currency display extreme volatility in 1982-83; there was also considerable debate regarding its true value and a great deal of sound and fury vented on so-called speculative activity undertaken by merchant banks and other financial institutions. The facts are clear: last July, according to the Hongkong Government *Digest of Statistics*, the average Hongkong dollar rate against the US dollar was 5.90; by November it had dropped to 6.67 and to 7.18 by the end of June. Furthermore, on June 8 the rate dropped as low as 7.70. It is currently trading in the range of 7.50.

The reasons are not too hard to find. Hongkong traditionally suffers a deficit on its visible balance of trade (some HK$15.5 billion in 1982) and this is only partially offset by earnings on the invisible account of some HK$9 billion. It follows that if the currency is to hold firm on a monetary basis, capital inflow must be positive. Unfortunately, it appears certain that such inflows were, in fact, negative. No satisfactory statistics on Hongkong's overall balance of payments are available, but it is perhaps indicative to study the make-up of deposits within the Hongkong banking system and analyse this as between deposits in Hongkong dollars and deposits in foreign currency.

Official government figures show a startling increase in foreign-currency deposits and little movement in Hongkong-dollar deposits in past months. Since the beginning of 1982, total foreign-currency deposits had risen from HK$31 billion to HK$109 billion in March 1983, a remarkable rise of 250%. At the same time, Hongkong-dollar deposits remained virtually static at HK$135 billion over the same period. It is not possible to estimate precisely how much of the increase in foreign-currency de-

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posits in Hongkong over that period represented a shift within Hongkong out of Hongkong-dollar deposits — and thus an outflow across the exchanges. However, even if only a small proportion constituted an effective outflow, the order of magnitude of the figures is considerable. For example, other things remaining equal, Hongkong-dollar deposits might have been expected in 1982 to grow at the rate of growth of current gross domestic product — 14.5% — and this would imply a net shift of some HK$20 billion, a figure exceeding the trade balance in magnitude. It should be emphasised, of course, that the switch out of Hongkong dollars into US dollars has not necessarily increased dramatically since the events of September last year; foreign-currency deposits had in any case been increasing rapidly before that time even prior to the removal of withholding tax on such deposits in February 1982.

These are admittedly extremely crude figures and may be considerably off the mark; however, given that the order of magnitude is correct, it is easy to see how changes in investor preferences can significantly affect the FX rate, even if the balance of trade continues to improve. Not only can capital outflows exert more importance in absolute terms than the balance of trade, but also it will require considerable effort to ensure a positive balance on current account — a situation not seen since 1977. This phenomenon is not unknown elsewhere in the region; for example, it works in reverse in Japan where a substantial trade surplus is frustrated by an equally large capital outflow. Even the horrendous trade deficits now published by the United States appear to cause the dollar little concern, simply because capital inflows to the US more than compensate for the bad trading performance.

Another factor affecting the Hongkong dollar over the past year has undoubtedly been the leads-and-lags effect, which encourages exporters to maintain their receivables in foreign currency as long as possible and stimulates importers to buy their foreign currency for raw materials as soon as possible. Again, these figures are difficult to quantify, but an analysis of the trade figures for Hongkong shows that if the leads-and-lags effect is approximately 30 days — that is to say, importers are paying their foreign-currency bills 30 days faster and exporters are delaying conversion of their foreign-currency receivables by an equivalent amount — then the maximum impact on the Hongkong dollar would be the equivalent of a once-off outflow of some HK$20 billion. This figure probably overstates the case owing to the fact that a considerable proportion of both exports and imports is not directly related to foreign-currency transactions: a more conservative figure might be half the earlier estimate — say HK$10 billion — but this again indicates the magnitude of the problem.

It seems unfair to regard either of the above factors as speculative; investors are entitled to seek what they deem to be a safe haven for their savings while exporters are likewise entitled to maximise their profits. Deliberate speculative shorting of the currency is another matter and there is no doubt that a number of banks and deposit-taking companies indulged in this practice — morally reprehensive perhaps, but hopefully profitable. However, such activities tend to be self-liquidating, expensive and risky; self-liquidating since open positions are rarely held more than 24 hours and then have to be closed again; risky since government intervention is possible at any moment to move the rate against the short seller and expensive since, in normal conditions, the cost of borrowing the currency overnight in order to short it tends to be pushed close to prohibitive levels by both market and government. Whether conditions actually are normal in Hongkong's money markets is another matter; certainly the current ability of banks to manufacture liquidity at the stroke of a pen makes it difficult to control money-market rates.

Turning to the correct rate for the Hongkong dollar, the consensus of opinion appears to be that a figure of HK$6.50:US$1 is correct, though only the vaguest of reasons are given. Forecasting correct rates is, of course, a hazardous task of dubious validity; however the state of the art in the currency-forecasting business does give us some pointers. Setting aside complex econometric models, a useful first approximation can be gained from the purchasing-power parity approach which simply states that currencies are valued in each country for what they will buy. If the rate of inflation is consistently higher in one country than in another, then goods produced in the first country will become more expensive relative to goods produced in the second country and the value of the first country's currency will depreciate correspondingly. Applying differential inflation rates in the US and Hongkong over the period 1980-82, the Hongkong dollar should have been around 5.50 by the end of 1982, rather than the 6.50 recorded; and a further depreciation of the order of 5% might be a reasonable forecast for 1983, bringing the rate close to 6.00. On a consumer price index of 100 in 1979, Hongkong is likely to reach 161 by the end of 1983, compared with 139 in the US.

However, purchasing-power parity theory has many drawbacks, particularly in an open economy such as Hongkong's. A more modern approach is to look at more financially oriented forecasting techniques, such as changes in the stocks of monetary assets. The obvious stock to look at is money supply and it is possible to examine relative changes in the US and Hongkong money supply and relate these changes to the relative exchange rates. A further sophistication is to adjust for relative real-growth rates. Unfortunately, however, the figures are heavily distorted by recent legislation affecting DTCs (plus the changes in interest tax referred to earlier) and the results vary widely, depending on which definition of money supply is taken and which currency component of that definition. For example, M1 growth in the period 1980-82 suggests that the Hongkong dollar should have remained around 5.00 due to relatively low M1 growth and relatively high GDP growth compared with the US. However, overall M3 growth projects the HK dollar at the end of 1982 at 7.50, since aggregate M3 growth over the past three years has been very high indeed. In the light of these widely varying results, it is difficult to interpret this particular model without further analysis.

WENDY KOKUCE

*Hongkong escalator: foreign currency deposits are going up steadily, too.*

Specifically, the above analysis does not adjust for the influence of relative interest rates; and this is particularly difficult to estimate in the Hongkong environment where the definition of the free-market interest rate is somewhat problematical due to the cartel structure of banking and the occasional money-market

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| | | | |
|---|---|---|---|
| 03 February, 1982 | US$10.00 | 31 December, 1982 | US$11.45 |
| 31 March, 1982 | 9.94 | 31 March, 1983 | 11.76 |
| 30 June, 1982 | 9.44 | 30 June, 1983 | 15.07 |
| 30 September, 1982 | 9.22 | **50.07% growth over 17 months** | |

**UNIJAPON — a French unit trust, invested in Japanese securities**

| | | | |
|---|---|---|---|
| 31 March, 1974 | FF130.98 | 31 March, 1980 | FF299.95 |
| 31 March, 1975 | 132.49 | 31 March, 1981 | 488.86 |
| 31 March, 1976 | 161.23 | 31 March, 1982 | 541.61 |
| 31 March, 1977 | 196.77 | 31 March, 1983 | 730.59 |
| 31 March, 1978 | 220.90 | 30 June, 1983 | 900.82 |
| 31 March, 1979 | 248.68 | **687.80% growth over 9-1/4 years** | |

**TOTAL ASSETS UNDER MANAGEMENT**

| | |
|---|---|
| 31 December, 1982 | **US$290,000,000** |
| 31 March, 1983 | **US$320,000,000** |
| 30 June, 1983 | **US$350,000,000** |

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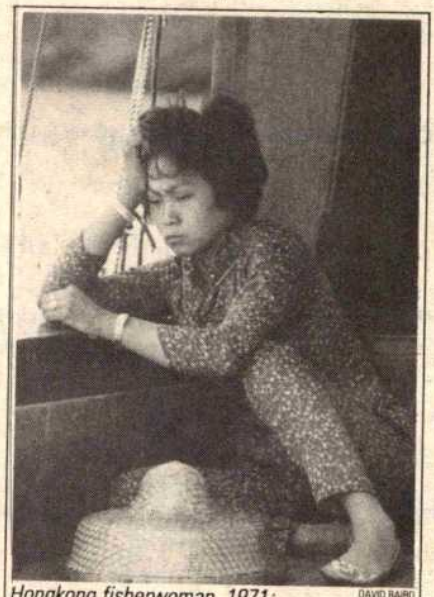
operations of the government. Nevertheless, the interest-rate factor has been a very major contributor to the recent strength of the dollar. With real interest rates in the US running at double historical norms of 3% a year and a demonstrated determination by the Federal Reserve Bank to keep interest rates high to combat inflation, the dollar continues to be a very attractive investment indeed.

Unfortunately, none of the theoretical interest-rate models, however sophisticated, appear to apply in Hongkong, since it is clear that in any reasonable analysis Hongkong dollar interest rates should not be below US dollar interest rates; indeed, current theory indicates that interest rates in Hongkong should exceed US dollar interest rates to the extent of the forecast differential in inflation rates (assuming purchasing-power parity holds for the moment). What we are seeking is some quantification of the interest-rate factor — which has made the US dollar strong — and one possible approach — thanks to the National Westminster Bank — is to assess the real movements in the US dollar after stripping away the effects of relative inflation rates. This can be done by looking at a trade-weighted index for the dollar adjusted for inflation rates. On that basis, the US dollar showed real underlying strength of some 10% in 1982 and an additional 6% in 1980-81. If 50% of this strength is attributed to the interest-rate factor and 50% to other structural changes, then we have to adjust our earlier forecast for the Hongkong dollar down to 6.50 rather than 6.00.

This approach is, however, somewhat general and does not take account of the particularly wide gaps between US and Hongkong real-interest rates in recent years — at least 5% per year in magnitude in 1981 and 1982, and probably even higher in 1983. This can best be done by combining all factors mentioned above into a multiple regression model that can be used to estimate what the HK dollar:US dollar rate would have been if only economic factors were relevant in recent years. Happily, the recent July issue of the *Hang Seng Bank Economic Quarterly* does an excellent job in this respect. It takes as variables the rates of growth in money supply, the changes in real income and the nominal interest-rate differentials between the US and Hongkong since 1978. The model predicted an equilibrium rate of 6.50 for the Hongkong dollar at the end of June 1983.



*Hongkong fisherwoman, 1971: looking worried even then.* DAVID BAIRD

Since this figure appears to be the desired goal of our exercise, cynics will no doubt point out that the above analyses were carried out with that particular goal in mind. However, these analyses were not intended to demonstrate conclusively the true value of the Hongkong dollar; on the contrary, they were intended to demonstrate how difficult it is to make such calculations and how many heroic assumptions must be made along the way. By a process of extrapolation, exactly the same conclusions apply, of course, to forward currency forecasting and the current state of the art is not encouraging.

For example, early in 1981, the major financial journal *Euromoney* carried out an analysis of the FX forecasting services of a number of major organisations. The results showed that more than 50% of these advisory services' forecasts were worse than tossing a coin. To add insult to injury, *Euromoney* repeated their exercise in August 1982 and their conclusion was that the performance of the forecasting services had deteriorated further. However it is only fair to say that some individual forecasters did manage to produce statistically significant estimates.

Given this hazardous state of affairs, it is hard to see how banks can really make money out of FX — except from their customers — and how corporate treasurers in the region can best protect their position against unpredictable and rapid moves in local currencies. Even building a huge customer base is not necessarily the answer, since as was stated in the opening sentences of this article, FX transactions related to real trade are relatively negligible and can be swamped by both speculative purchases and sales.

But if forecasting is difficult, what about utilising FX-dealing expertise? Much is often made of the so-called expert gut reaction of a trained dealing room to currency movements and the ability of that dealing room to forecast such movements, at least over a very short term, maybe a period of minutes. However, considerable doubt must be cast on such expertise in the longer term since very often the dealers concerned are not professionally trained in economic analysis and must wait for the screen to provide an appropriate explanation for them (and everyone else). This is not to say that the dealing room of any bank should be staffed by economists; there is a great deal of truth in the old adage that if all economists were laid end to end, they would never reach a conclusion.

However all is not lost and it appears that the saviour, believe it or not, is central-bank intervention. According to some recent studies, a vast number of opportunities for profitable FX dealing have been created by the desire by central banks to smooth abrupt, but ultimately inevitable, movements in their currencies. An analysis published last year covering nine major central banks indicated that all but one lost substantial sums of money on intervention over the past decade. This is not necessarily a bad thing for the central bank concerned, since the loss on FX intervention could very easily be offset by the benefits of reduced currency volatility; and, in any case, central banks are not held accountable for such losses. Nevertheless, these losses are real and are, in general, available to the banking system as profits.

Turning to the corporate treasurer, the best he can probably do in such an uncertain world is to hedge all his exposed positions fully. This means identifying his true net-currency exposure, both in terms of capital and future income and carrying out appropriate hedge strategies. Capital hedging is best carried out by borrowing an equal and opposite amount in a similar currency, while the hedging of receivables can be accomplished through money markets or forward-exchange rates. Transaction costs must, of course, be watched closely and it is in this context that the advent of financial-futures markets to the region is very much to be welcomed. Generally speaking, these markets can supply forward-hedging opportunities at less cost than with spreads charged in forward markets and they should certainly be welcomed by the financial and commercial community alike.

For example, figures published by the IMF show that average spreads between buying and selling rates in forward markets were relatively high until recent years, i.e. until the impact of the International Monetary Market (IMM) in Chicago began to be felt. Specifically, taking the 12-month forward Yen:US dollar rate, the IMF estimated the spread at 0.6% as recently as 1981; this has now dropped to some 0.3% compared with a broadly similar cost on the IMM of a commission rate of 0.2%.

Certainly Singapore appears to be forging ahead on this front with the announcement by the Singapore Government on July 18 that the Gold Exchange of Singapore will jointly open an international futures market with the IMM in early 1984. Contracts will be interchangeable in both centres and thus a round-the-clock market has in effect been created allowing members to buy a contract on one exchange and sell it on the other. The position of Hongkong is unclear since little appears to have happened since the Hongkong working party on this topic produced their discussion paper in July 1982. However it would be a pity if Hongkong did not make a contribution to such markets, given the considerable volatility of the Hongkong dollar and the high current costs of forward trading.

# Extra steam generated by the strong US dollar is good news

*By James Lee in Hongkong*

Many observers have expected the US dollar to weaken since that currency climbed to a 12-year peak late last year. The dollar, they pointed out, is overvalued and is bound to weaken substantially from a large current-account deficit and perhaps also an easing in interest rates. Others have come to a different view. The editors of a well-known publication noted last month that much of the dollar's weakness during the 1970s reflected poor economic policies, notably in the monetary and energy areas. With more constructive policies now in place, it is not unreasonable that the dollar should have returned, as of mid-1983, to its level prior to the Smithsonian Agreement of end-1971. They went on to suggest that under-estimation of net service exports has probably made the United States current-account deficit appear worse than it is; and furthermore that asset preferences — rather than the current-account position — may have been the dominant influence in recent US dollar movements against other currencies.

For the global economy, the strong US currency is a two-edged sword. Associated with the strong dollar are high interest rates in the US, which have also obliged other countries to keep their interest rates high, thereby restraining the pace of recovery in their domestic demand. On the other hand, the dollar's strength is likely to give rise to a larger US trade deficit than otherwise would have been the case. Recent Organisation for Economic Cooperation and Development forecasts envisage that US imports (which constitute about a seventh of the world market) would rise in real terms by 5.5% in 1983 and 10.5% in 1984, after falling 4.8% in 1982. This will be extra steam to the powerful US locomotive, which is already leading the world out of recession. One additional merit can be ascribed to a strong dollar and high interest rates. On balance, they tend to keep inflation down: this would be helpful as individual economies — particularly the US — proceed on an upswing of the business cycle.

The extra steam generated by the strong US dollar will produce especially good mileage for Asia's newly industrialised countries (NICs), Taiwan, South Korea, Singapore and Hongkong. For one thing, these are relatively export-dependent economies, in which the value of exports expressed as a proportion of gross domestic product generally ranges from a third upwards, as compared with up to a quarter for the major OECD countries including Japan. For major industrialised countries, the current recovery is generally led by domestic demand, whereas for the NICs a recovery is only solidly based when it is export-led, as is currently the case.

The prospect for increased exports from NICs to the industrial

James Lee is economist, The Chartered Bank, Hongkong.

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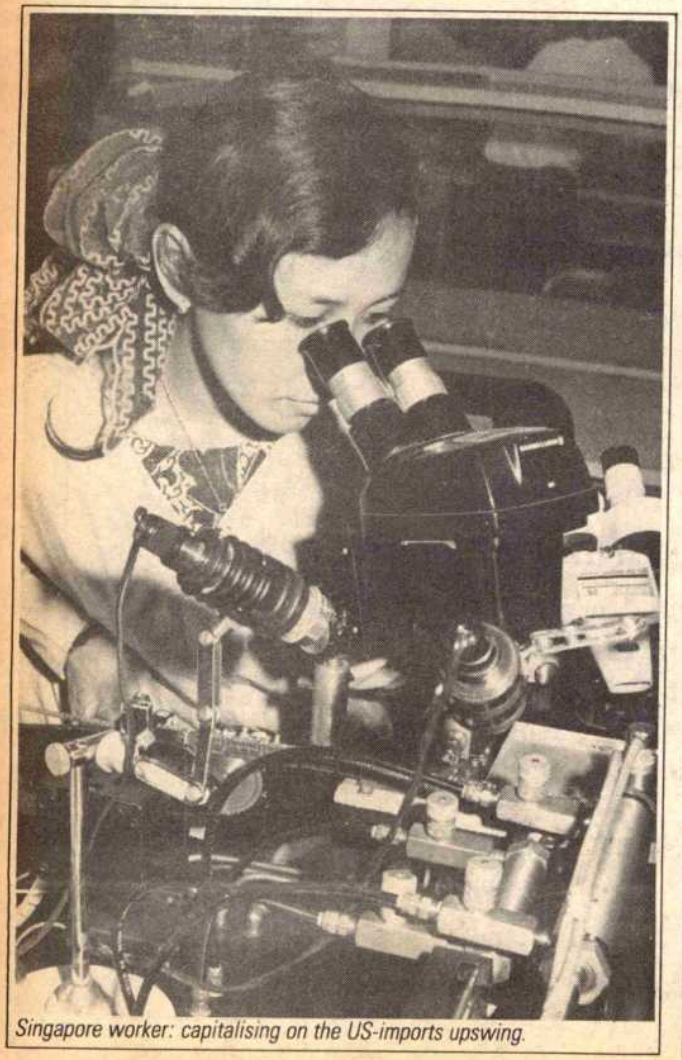
countries is certainly brighter now than at any time in the recent past. OECD economic forecasts project that, because the Western economic recovery is domestic-led, a rise in OECD imports in response to increase domestic demand will outpace the rise in OECD exports during the second half of 1983 and first half of 1984. Imports from non-OECD countries will be sucked in. Given their adaptability, NICs will be quick to take advantage of the situation.

| | Growth of US imports in volume terms (%) | Asian NICs: share of total US imports | | | | |
|---|---|---|---|---|---|---|
| | | Singapore (1) | S. Korea (2) | Hongkong (3) | Taiwan (4) | (1)+(2)+(3)+(4) |
| 1972 | +13.5 | 0.48 | 1.27 | 2.25 | 2.33 | 6.33 |
| 1973 | +6.2 | 0.67 | 1.40 | 2.09 | 2.57 | 6.73 |
| 1974 | −3.3 | 0.55 | 1.45 | 1.62 | 2.09 | 5.71 |
| 1975 | −11.5 | 0.55 | 1.49 | 1.62 | 2.01 | 5.63 |
| 1976 | +22.2 | 0.57 | 2.00 | 1.98 | 2.46 | 7.01 |
| 1977 | +10.8 | 0.60 | 1.96 | 1.94 | 2.47 | 6.97 |
| 1978 | +10.2 | 0.64 | 1.99 | 1.99 | 2.99 | 7.61 |
| 1979 | +0.2 | 0.71 | 1.98 | 1.91 | 2.85 | 7.45 |
| 1980 | −7.1 | 0.80 | 1.76 | 2.23 | 2.86 | 7.65 |
| 1981 | +2.5 | 0.81 | 2.00 | 2.06 | 3.09 | 7.96 |
| 1982 | −5.0 | 0.90 | 2.31 | 2.27 | 3.65 | 9.13 |

The four Asian NICs have a recent record of success in the US market. Their share of the market has generally increased over the years 1972-82. Capitalising on the upswing of US imports in 1976-78, the four exporters increased their aggregate share from 5.6% to 7.6%. Probably because their products had advanced by then to the range and quality where they continue to be in good demand even during an economic downturn, the four were subsequently able to avoid a setback to their market share similar to that witnessed during the previous recession of 1974-75.



*Singapore worker: capitalising on the US-imports upswing.*

Last year their exports to the US rose amid a 6.5% decline in the value of total US imports, with the result that their aggregate market share rose to a record 9.1%.

Optimism for the NICs' export prospects needs to be qualified in at least one respect. Exchange-rate movements and recession during the past few years have adversely affected the export competitiveness of NICs vis-à-vis developed countries with whom the NICs compete in the import markets of the latter. The currencies of major industrialised countries have weakened substantially against the US dollar, whereas the currencies of the NICs depicted (with the exception of Hongkong) have exhibited greater stability by comparison. Such stability can be explained by the traditional linkage of NICs currencies to the US dollar and the fact that NIC currencies tend to be affected more by trade flows than by shifts in asset preferences.

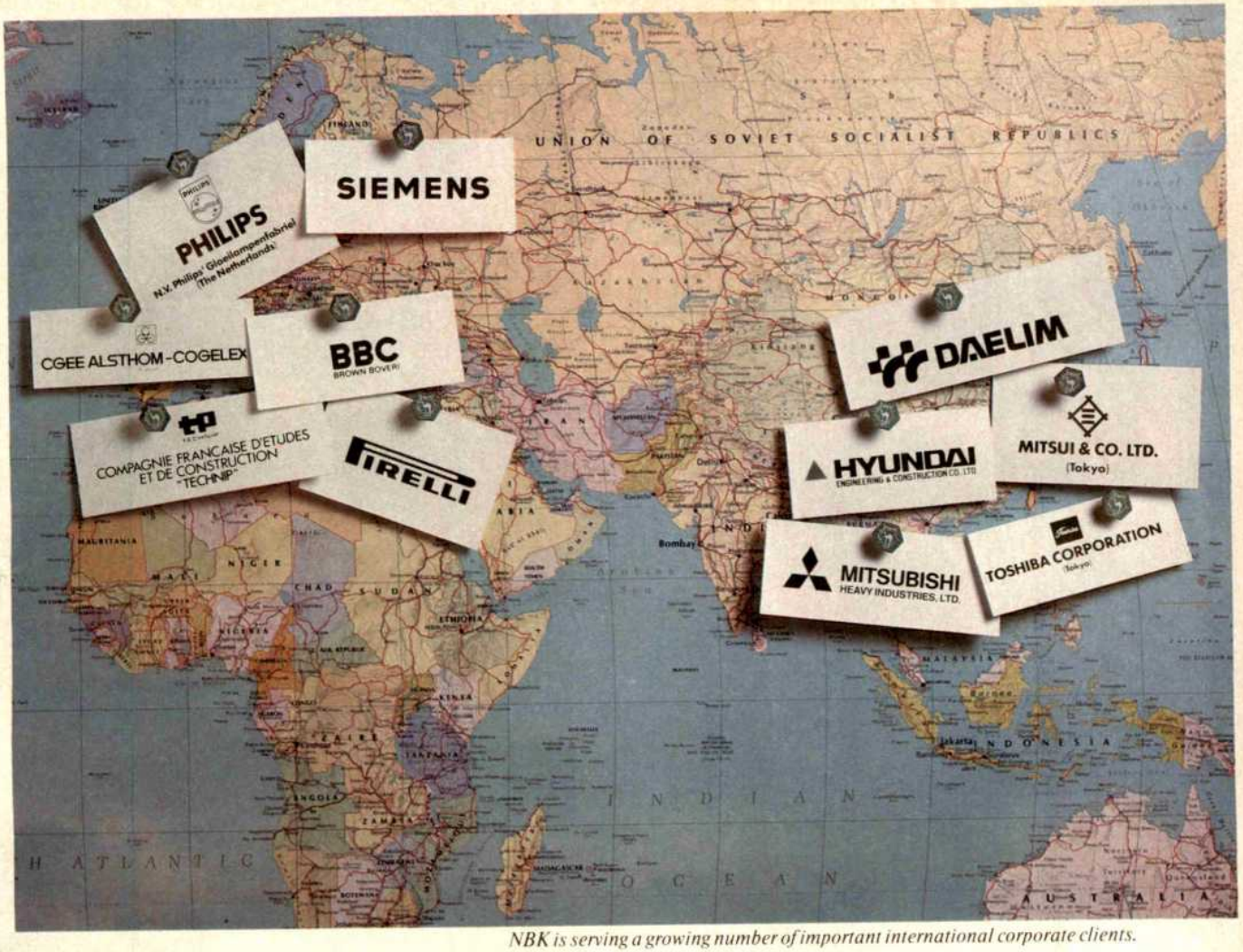
Recession has also affected NICs and developed countries differently. In the advanced industrial countries, prolonged recession has led to substantially reduced inflation and quite large declines in export prices. The same has been true for NICs, but to a lesser extent. After all, it was not until 1982 that export-growth rates of the NICs dipped significantly. Consequently the recent recession has been relatively brief for NICs and the declines in their export prices have been modest.

Overall, export prices of the 18 leading industrial countries other than the US, when expressed in US dollar terms, fell by over 12% on average between fourth quarter 1980 and fourth quarter 1982, but the corresponding declines were only 3% for Taiwan, 5% for Singapore and 5% for South Korea (but, exceptionally, 16% for Hongkong). It is therefore likely that over the next few years the exchange rates and/or export prices of some Asian NICs may come under downward pressure as competition from producers in the advanced industrial nations becomes increasingly felt. This would be in line with the generally observed tendency for changes in export prices of different countries — when adjusted for exchange-rate movements — to maintain close parity with each other over the longer term.

Results so far this year indicate that, in general, export growth rates of the Asian NICs have begun the upturn. For South Korea and Taiwan, exports rose in US dollar terms by about 2% and 3% respectively in the first five months of the year compared with the same period in 1982. These correspond to growth rates of about 7% and 4% in terms of the respective domestic currencies. For Singapore and Hongkong, growth for the first six months amounted to −0.5% and −3% in US dollar terms, or about −1% and +14% in domestic currency terms.

A clear beneficiary from the strong US dollar has been Hongkong, whose currency has lost some 20% of its value against the US dollar since mid-1982. The 14% rise in the Hongkong dollar value of the territory's domestic exports during the first six months was led by a 25% increase in sales to the US and represented, in real terms, an approximate 9% increase over the year-ago period, compared with declines of 3% in both the first and second halves of 1982. Also benefiting from a weak currency is incoming tourist expenditure, which was 25% higher (in Hongkong dollar terms) in the first quarter of this year than in first quarter of 1982. The weakness of the local currency against the US dollar, one might note, has been exacerbated by such factors as continuing political uncertainty and the abolition of interest withholding tax on foreign-currency deposits, as well as a relatively high inflation rate.

With the passing of an overheated property boom, prices of industrial land in Hongkong have fallen to very competitive levels; interest rates have also declined and, notwithstanding uncertainties over the expiry of the British lease on the New Territories in 1997, foreign investment in the local manufacturing industry is apparently continuing to rise. Given now the further stimulus from the protracted weakness of the Hongkong dollar, which is widely felt to be undervalued, the territory's economy appears to be firmly restored on an export-led growth path. Provided that domestic inflation does not become indexed in some way to the weakness of the currency, the weak Hongkong dollar and its impact on import prices should also have the salutary effect of discouraging too rapid a rise in consumer spending once the economy has recovered.

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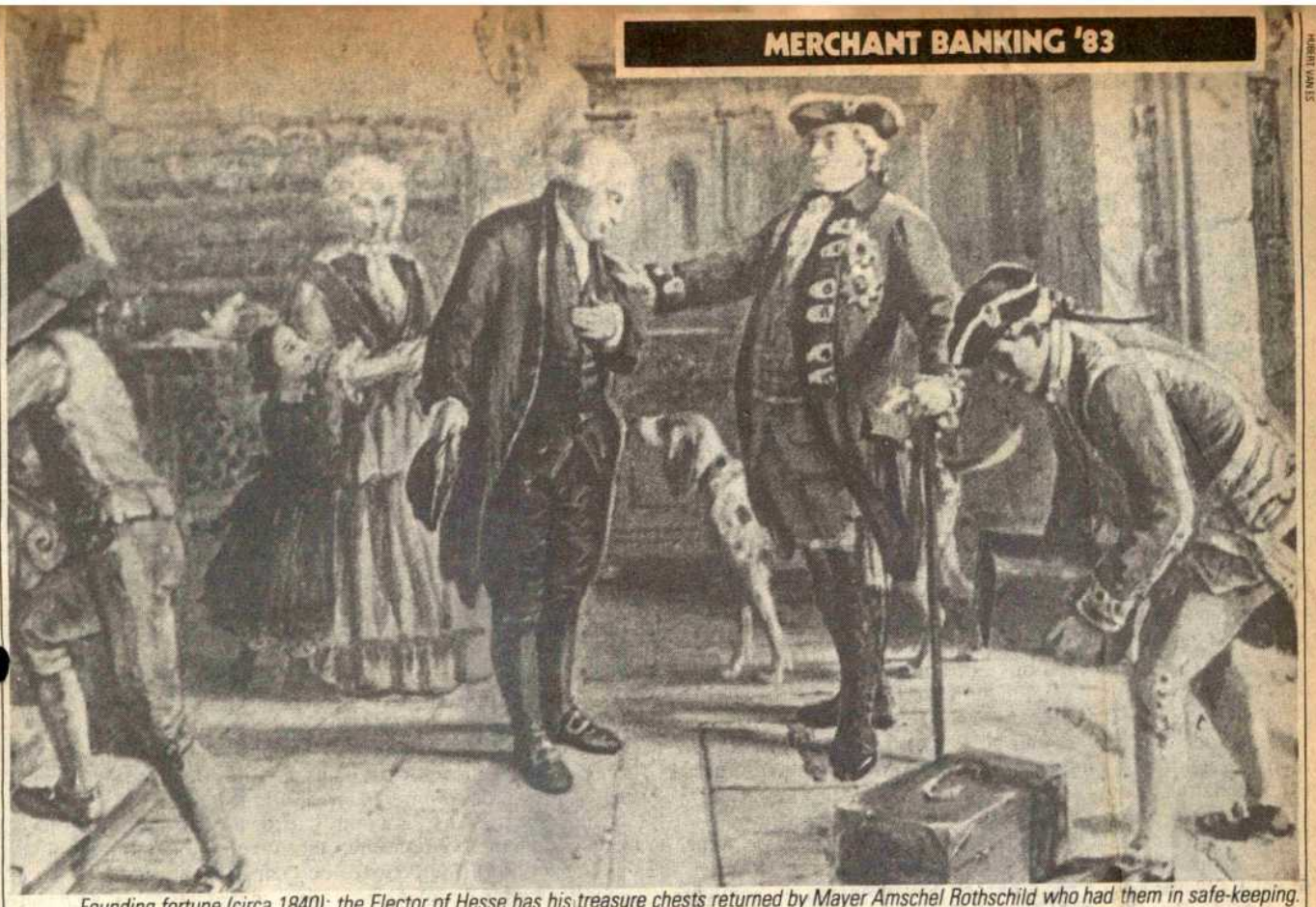

HUBERT VAN ES

*Founding fortune (circa 1840): the Elector of Hesse has his treasure chests returned by Mayer Amschel Rothschild who had them in safe-keeping.*

**MEN OF THE OLD SCHOOL**

# Where have all the real merchant bankers gone, lah?

***By Anthony Rowley in Hongkong***

Where are the merchant bankers of yesteryear — the Rothschilds, the J. P. Morgans, the Warburgs — who brought together capitalists and entrepreneurs to create great industrial dynasties? Where in developing Asia can one find such men of vision, such catalysts of industrial revolution? The answer seems to be — not in merchant banks.

Perhaps the name of the game has changed: banks are run by committees nowadays, not by individuals. Perhaps conditions in Asia are just too different from those which accompanied the Industrial Revolution in Europe and the United States for the role of classical merchant bankers to be relevant. Whatever the reasons, attempts so far to transplant the merchant banking/venture-capitalist tradition into the region have all but flopped.

Take, for example, the most recent of these ventures: the formation of the Asean Finance Corp. (AFC), financed by a plethora of private and state banks from the five Asean countries and based in Singapore. This was to be Asean's answer to the "lack of pioneering spirit" (as one Indonesian banker put it) among Western merchant banks operating in the region. If these had lost their pioneering spirit, Asean could rediscover it for itself in an institution which would tap the natural dynamism, entrepreneurship and resources of the area.

But perhaps AFC was doomed from the start in that it tried to institutionalise the pioneering spirit. Its shareholders include a clutch of bureaucratic (and cautious) state-owned banks as well as private banks (which nowadays tend to be equally bureaucratic). So far, there is not a shred of evidence of this new institution having begun to wreak the sort of transformation its own pioneers foresaw. According to them, it would identify business opportunities in Asean and entrepreneurs to exploit them. It would marry finance, capital, management and technology into corporate packages and then sell them to the investors of the world.

What has AFC in fact done since it set up shop (in rather smart and spacious offices) in May 1981? It has loaned a lot of money to various (mainly existing) business out of its own US$50 billion start-up capital and by tapping commercial credit lines and through S$56 million (US$26.05 million) of co-financings. It has moved into the financing of intra-Asean trade and has begun looking for project-financing opportunities in the region. Maybe it is too soon to judge AFC after only two-and-a-half years of life and certainly the dank, still airs of recession it was born into have hardly helped spread its wings. But it is fair to say that AFC has so far concentrated more on the kind of passive, fund-based activity which its promotors castigated Western merchant banks for pursuing than on active, fee-based work. Put another way: it has tended to live off its capital rather than put its capital to work (and at risk) in new ventures.

Maybe things will change when Chote Sophonpanich, one of the four senior executive vice-presidents at Thailand's Bangkok Bank, takes over. The Sophonpanich family have the reputation in banking circles of being movers and shakers. (In passing, it is worth mentioning that Bangkok Bank itself has just set up a merchant bank [in July] and that, given the international reputation achieved by its parent, can be expected to have some regional impact.)

But it must be said that the dice are loaded somewhat against

AFC as a pioneering merchant bank unless its 139 shareholding banks are prepared to let it operate on a freer rein than, say, the (also Singapore-based) Private Investment Corp. for Asia (Pica) which has no fewer than 230 institutional shareholders — mainly banks from all over the world. Despite this impressive pedigree (and the very real efforts of its staff) no one could fairly argue that Pica has proved to be a major development catalyst in Asia.

Pica's balance-sheet total as at December 31, 1982 was US$273 million, of which no less than US$180 million was made up of loans and a much more modest US$33 million of equity investments. A further US$37 million was in various guarantees. Pica's venture-capital investments, be they textiles in Indonesia, cocoa plantations in Malaysia or shipping in the Philippines, are by their very nature slow to yield dividends or capital gains. So Pica relies heavily on lending business — the greater part of it offshore loans — to help cover operating costs and to pay a dividend to its own shareholders.

But in the end the name of the game in venture capitalism (which is what people mean when they talk about the pioneering spirit of archetypal merchant bankers) is equity financing. Banks such as those which own Pica or AFC are not going to indulge heavily in that when they can make loans instead whose repayment is (notionally) guaranteed. This is part of a much wider debate as to whether development in parts of the world such as Asia would not be far better financed by much bigger slices of equity investment (direct and portfolio) from the West rather than through bank lendings which drive developing countries ever deeper into debt.

This debate goes right to the heart of the role of commercial banks versus merchant banks. It also explains why the role of the World Bank — or rather its ordinary lending arm the International Bank for Reconstruction and Development — is much greater in regions like Asia than of its sister institution, the International Finance Corp. (IFC) which is the bank's equity arm. IFC should in theory be the merchant bank to end all merchant banks (in the venture-capital sense), yet again its total worldwide investment portfolio of US$1.84 billion pales against amounts lent annually by the World Bank proper and is utterly dwarfed by commercial-bank lending. IFC's total Asian portfolio stood at US$368 million at the end of 1981 of which some US$76 million was in the form of equity investments. Respectable enough perhaps, compared with that of Pica — considering that institutions battery of powerful backers — but again relatively insignificant when compared with the volume of foreign loans made to the region's biggest borrowers.

What all this means is that merchant-banking activity in Asia — in the sense of marrying capital with enterprise — is being carried on by a host of institutions — state-owned, privately owned or internationally owned. The Manila-based Asian Development Bank decided to get into the act earlier this year too, albeit with a derisory start-up capital of US$10 million for its equity financing arm: and more recently both South Korea and Taiwan have announced their intention of establishing venture-capital concerns (Seoul's in conjunction with the IFC). IFC too has opened a representative mission in New Delhi this year.

But whether any of these institutions or companies are going far enough to have a really meaningful impact on industrial and business development is something on which there is plenty of room for debate. IFC, for instance, as one of its representatives at the Washington headquarters told this correspondent, looks for "bankable" propositions to finance — in other words, ventures which have already gone some way down the road towards commercial realisation.

And while the AFC originally had ideas of promoting projects from a much more embryonic stage (even to the moment of actual conception) it appears to be erring on the side of caution (and the need to compete in earnings and assets terms with conventional merchant banks) as it becomes established.

Another of AFC's founders' ideas was that a good deal of corporate enterprise in Asean was too loosely structured to attract investments from outside the region. Thus a business run by, say, an Overseas Chinese entrepreneur in his own name could hardly be expected to attract the confidence of outside investors — however important that business might be in domestic terms and however big. AFC could underwrite the bonds of that business and thus underwrite its reputation in international capital markets.

There are no signs of AFC acting in this Godmotherly (or perhaps Godfatherly) way yet but one Asean entrepreneur, Liem Sioe Liong, has pre-empted the bureacratic institution by cloaking some his own (increasingly international) activities in the respectable mantle of an internationally acceptable title — the First Pacific Group, based in Hongkong — and thus begun to attract international investment. First Pacific even has its own merchant bank now.

The relative lack of success so far with such ventures does not mean that there is no need for new types of merchant banks in Asia. There is an equity gap (at present over-filled by debt finance) to be filled and there is equally a management, technology and marketing gap. But it is unlikely to be filled by consortium ventures such as AFC (which arguably has had less success than national ventures like Malaysia's state corporation Pernas in this respect) or by Pica — or even IFC. It probably needs a few (preferably wealthy) individuals to get things moving. Where are Asia's Rothschilds, Morgans, Warburgs, then?

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# Filling the amah's gold tooth

*By Michael Roberts in Hongkong*

A recently completed 50-storey office tower block in the Central is a clad in a curtain wall of gold tinted glass. This gold edifice has been nicknamed, by local Chinese, the Amah's Tooth. On hearing this, one local wit is reported to have said, "and like most Amah's teeth, it requires filling," thus summarising the problem facing all Hongkong property developers — gross over-supply.

The over-supply of all types of property — commercial, residential and industrial is the result of the enormous increase in construction activity between late 1978 and mid-1981 which followed an unprecedented rise in property prices. Despite warning signs and the fact that the price spiral mirrored the events of the early 1970s and the early 1960s, the boom continued to be fuelled by bankers who had found a new source of lending opportunities and a new source of funds to lend.

During the 1970s, the interbank market for Hongkong dollars developed slowly at first. However, as an increasing number of overseas banks with no Hongkong-dollar deposit base arrived, the interbank market became more active and overseas institutions found it increasingly easy to fund themselves from this source. The arrival of overseas banks combined with the strong demand for property of all types — resulting from sustained economic growth in Hongkong — provided a large number of opportunities for banks to finance property development. This they proceeded to do, encouraged in part by the fact that the major banks in Hongkong were seen to be actively supporting the property market. Furthermore, a number of newly established financial institutions were under pressure to produce results and the opportunity to participate in the many lending opportunities was irresistible. It seemed easy money: as prices went up, everyone made money.

This situation could not last and it soon became evident that there would have to be a readjustment in prices, notwithstanding any other factors. The stockmarket was beginning to suffer from indigestion from the large number of new issues by property companies. By late September 1981, the stockmarket had had enough and finally a relatively small property-company issue was substantially left with the underwriters. This was nearly a year before British Prime Minister Margaret Thatcher's visit and, therefore, the present situation results from two factors which should be clearly distinguished. First, there was the slackening of demand due to over-supply of property created by the frenetic activity of the previous years, resulting in a fall in property prices. Secondly, the realisation of the position of Hongkong vis-à-vis the expiry of the British lease on the New Territories in 1997 was brought into sharp relief by the impending Thatcher visit to Peking. This second factor totally undermined confidence and, as a result, the property market effectively ceased to function. For a time, there simply were no buyers.

The loss of confidence against a background of continuing high interest rates resulted in what is euphemistically called a cash-flow crisis: companies, particularly development companies, which had borrowed heavily to finance property development, were unable to sell their stocks of property and ran out of cash.

Michael Roberts is director, Samuel Montagu Co. Ltd, Hongkong.

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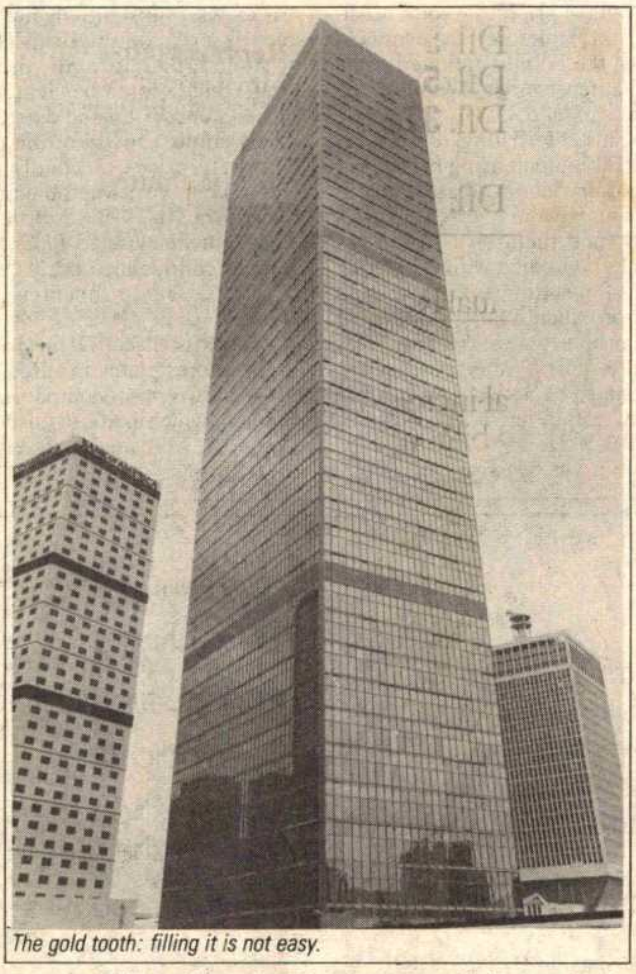
What were the banks to do? Before considering the banks, it is interesting to see what the development companies did. While it became obvious to everyone that the property market was falling, very few people knew the real position of any one property group or their exposure to the market or their bankers. The previous years' scramble to lend money had been accompanied by an apparent lowering of credit standards. Personal guarantees and corporate guarantees from private companies had been offered and accepted in the belief that the wealth of the private company is much greater than the wealth of the public company. Even in late 1982, banks operating under this assumption were trying to move some of their indebtedness from the public company to the privately held parent company. The reality proved somewhat different as, in almost all cases, the public company had been supported at the expense of the private company.

The first to realise the effect of the falling property market were the property developers themselves. As the crisis deepened and with an uncertain future, many began to take action which, in retrospect, may seem shortsighted, but which, at that time no doubt, appeared to be the best in the circumstances. Overheads were cut, with the heaviest cuts often occurring in the accounting and administration areas. Key staff, many aware of the problems, began to leave and, as payment of debts was delayed, problems began to accumulate. Prompted either by their clearing bankers or by their own realisation, the companies would finally seek help. Inevitably, the immediate requirement of professional advisers who were called in was detailed financial information. The overhead cuts, often together with poor financial management, meant that reliable information was hard to obtain rapidly.

For the adviser, armed only with preliminary financial information, this is the most critical time. Hongkong law, unlike United States law, does not provide the equivalent refuge of chapter XI of the US bankruptcy code.* As a result, when lending banks first become aware of the problems besetting a particular company, they have to make a difficult decision. By the time the company approaches its lenders, there is usually insufficient cash for the company to meet its commitments as they fall due. The first proposition which any adviser to the company has, therefore, put to each of the lending banks is that there should be a period during which the financial position of the company will be established and that information should then form a basis on which a decision can be made.

Even such an apparently reasonable proposition is often the subject of dificult negotiations since some banks are reluctant to accept that to do nothing for the time being is better than to appoint a receiver to protect their position. But the appointment of one receiver could result in the appointment by each separate lender of ther own receiver and, in such circumstances, a petition for winding-up the company would almost certainly follow.



*The gold tooth: filling it is not easy.*

If banks are required to provide additional funds to maintain the integrity of the operations, then the position is clearly different. In the case of most companies in Hongkong, the problems are mainly those of an illiquid property market where prices have virtually no meaning. Against this background, when there is no immediate requirement to provide additional funds, it would seem that nothing is to be gained, but everything lost, by lenders resorting immediately to their legal remedies.

However, it is to the credit of the vast majority of banks that they have been prepared to review the position carefully. This has provided a breathing space for a proper evaluation of the company's position which is often substantially different from that originally revealed.

There remains a significant over-supply of most types of property in Hongkong and, in the absence of the settlement of the 1997 question, prices continue to be weak. However, the willingness of banks to cooperate in seeking a more flexible approach to companies' problems must be regarded as a very positive feature which has so far averted the wholesale bankruptcy of a number of property companies with the domino effect on other property companies. The pragmatic attitude adopted by lenders has been instrumental in avoiding one of the major fears expressed by bankers in the early days of the crisis: the liquidation of a significant number of property portfolios at approximately the same time. In the circumstances, the market would have been unable to absorb more than a small amount of the properties and such action would have prolonged property-market illiquidity and possibly resulted in the failure of a larger number of property companies.

During the latter phases of the property boom, as the cost of the sites soared, it became increasingly common for a number of developers to join with other companies to finance the development of a particular piece of property. A number of the partners have become victims of the property slump and this has added a further dimension to the problems besetting the banks. Clearly, to take action against one partner in a joint venture with all the other partners, albeit not in financial health but at least not on the brink of bankruptcy, could in certain circumstances, be the very act which would take the other partners over the brink.

By taking legal action to recover debts, the chances of other companies being pushed into a crisis would have significantly increased. So far the situation has been avoided, but the refusal of partners to assume the burden of the proportionate share of a partner who is experiencing severe cash-flow difficulties has resulted in one major foreclosure by the lenders. It remains to be seen whether this action will ultimately damage those companies which were able to repay the full amount of the principal and precipitate a second phase of the property crisis.

Although there can be no guarantee of success of the rescheduling efforts whilst the 1997 question remains unresolved, those who have adopted a pragmatic and constructive approach to these efforts deserve to succeed. The dilemma for the lenders remains, however, that, in spite of the patience shown by the majority of the lending banks in Hongkong, the success of most debt-rescheduling operations will continue to depend to a large extent on the outcome of the talks over the future of Hongkong.

*Chapter XI provides a statutory breathing space (upon request) during which all actions against a troubled company are halted and the company has the opportunity to present itself anew in restructured form.

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# Face the facts.

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| | |
|---|---|
| Balance sheet total | Dfl. **59,550** |
| Total deposits | Dfl. **57,116** |
| Debtors | Dfl. **37,884** |
| Total shareholders' equity and subordinated loans | Dfl. **2,307** |

Some highlights from our 1982 Annual Report (55th financial year):

- The combined balance sheet total increased in 1982 by 7% to more than Dfl. 59 billion.
- Debtors increased by 7% to more than Dfl. 37 billion from Dfl. 35 billion at the end of 1981. This increase is largely attributable to the growth of our foreign loan portfolio.
- As part of our branch office programme, a number of NMB branches were opened in 1982. The total number of NMB branches at home and abroad amounted to 482 at the end of the year, with employees totalling 10,948.
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- Revenue from stock exchange business again showed an even greater percentage rise than overall stock exchange turnover.
- Eurodeposits accounted for 15% of the combined balance sheet total.

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UPI

Argentina has rescheduling problems: in Buenos Aires people searching for vanished relatives battle with police.

GOLD

# There should be no rush to buy now

***By Robert Valentine in Hongkong***

Gold has been in the doldrums since the beginning of 1983. Starting the year at around US$450 an oz, prices had moved slowly up to US$500 an oz by mid-February. However, a sudden collapse towards the end of that month brought prices down to the US$420 level again, from where they barely moved for the next four months. At the time of writing, there appears to be little change and it seems unlikely that gold will show any significant improvement for the remainder of the year.

As a result, the metal continues to provide a somewhat dismal return on investment — whatever gold bugs may say. Indeed, any investment since 1980 would by now have proved hopelessly unprofitable (allowing for inflation) and it would have required an investment at the average 1979 price of US$305 an oz to break even now.

Nevertheless, all is not gloom for the months ahead, particularly if there is any sign of upset on the international financial scene. The basic supply/demand situation appears extremely healthy in 1983 with demand likely to outrun supply for the third year in succession. In 1982, the deficit was approximately 250 tons and this is likely to increase sharply to 450 tons in 1983, due to the continued surge in jewellery demand and a relatively static level of production. As always, a high level of Soviet sales could upset the applecart, but it is unlikely they will exceed the 1982 level of 200 tons provided oil prices remain stable.

Central-bank activity is another imponderable and the above forecast assumes a neutral net government position, with official sales balanced by official purchases. However, it is more than likely that central banks will emerge as net purchasers this year — as they were in the past three years — particularly if prices remain at current reasonable levels. Furthermore, any government which requires cash will probably prefer to swap its gold for cash (in other words, lend its gold out as collateral for a specified period of months) rather than sell it outright, thus providing only a temporary source of supply to the market.

The second bullish factor for gold is the continued uncertain situation on international credit markets. Attempts earlier this year to solve the problems of a considerable number of insolvent countries appear to have been partially unsuccessful, with the outlook for Brazil continuing to be of major concern. A mid-July rumour that Brazil could not repay its debt of US$400 million to the Bank for International Settlements — and an initial refusal by that institution to extend the loan — caused a temporary market upsurge of US$17 an oz; and in the background, rescheduling problems continue to plague a number of countries, notably Venezuela and Argentina. If a major crisis erupts on this front and the International Monetary Fund is unable to control the situation, gold will certainly soar.

The final favourable factor affecting gold is the possibility of revived inflation in the months ahead. While the United States Federal Reserve Board (the Fed) has certainly taken stringent steps to contain inflation — and the reappointment of Paul Volcker as chairman should tend to ensure continuity on this point — there are some grounds for concern that a measure of inflation might recur in the near future — given the rather unexpected strength of the US recovery — and the inability of the US to cut its budget deficit to a more reasonable level. For example, the 0.5% increase in the producer price index for June caused some concern, as did news that US capacity utilisation had increased to 74.5%.

Furthermore, M1 figures are considerably over target and the Fed has taken the official stand that this does not matter; however growth in the basic money supply cannot be entirely irrelevant to inflationary expectations. Last but not least, the lurking menance of default on international financial markets due to high interest rates may be seen to be more important ultimately to the worldwide economy than a routine dose of inflation. In this scenario, interest rates would be kept low by expanding money supply regardless of inflationary consequences.

On balance, however, it is probably wishful thinking to suggest that either inflation or international financial markets will move out of control during the remainder of 1983. Thus we are left with a fairly solid (if unexciting) demand/supply position combined with a negative real return to the investor at current

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|---|---|---|---|
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| Orissa National Aluminium Company Limited | US$ | 680,000,000 | 1981-1991 |
| SamWhan Corporation | US$ | 49,945,400 | 1981-1984 |
| Dong Ah Construction Industrial Co. Ltd | US$ | 65,000,000 | 1981-1986 |
| Hanyang Corporation | US$ | 35,000,000 | 1981-1982 |
| ICC Construction Co. Ltd. | SR | 100,000,000 | 1981-1982 |
| Central Bank of the Philippines | US$ | 50,000,000 | 1981-1989 |
| The Export-Import Bank of Korea | US$ | 200,000,000 | 1981-1989 |
| The Export-Import Bank of Korea | US$ | 201,100,000 | 1981-1990 |
| Hyundai Construction Co. Ltd. | US$ | 20,000,000 | 1981-1983 |
| SamWhan Corporation | SR | 60,900,000 | 1981-1983 |
| SamWhan Corporation | US$ | 40,000,000 | 1981-1984 |
| Hyundai Heavy Industries | US$ | 18,000,000 | 1981-1984 |
| Daewoo-Triad Development Co. Ltd. | US$ | 50,000,000 | 1981-1982 |
| State Electricity Commission of Victoria | Aus$ | 50,000,000 | 1981-1996 |
| **1982** | | | |
| Ssangyong Construction Company Limited | US$ | 15,000,000 | 1982-1984 |
| Poonglim Saudi Arabia Construction Co. | SR | 100,000,000 | 1982-1985 |
| Taiwan Power Corporation | US$ | 100,000,000 | 1982-1992 |
| P.T. Garuda Indonesian Airways | US$ | 75,590,000 | 1982-1994 |
| Federation of Malaysia | US$ | 1,100,000,000 | 1982-1992 |
| Oil & Natural Gas Commission of India | US$ | 30,200,000 | 1982-1992 |
| Oil & Natural Gas Commission of India | FF | 163,400,000 | 1982-1992 |
| Citra Partnership | Aus$ | 11,750,000 | 1982-1988 |
| **1983** | | | |
| Republic of Indonesia | US$ | 1,000,000,000 | 1983-1991 |
| Oil & Natural Gas Commission of India | US$ | 400,000,000 | 1983-1991 |
| P.T. Cold Rolling Mill Indonesia Utama | US$ | 218,000,000 | 1983-1993 |
| The Export-Import Bank of Korea | US$ | 300,000,000 | 1983-1991 |

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interest rates. Thus there should be no rush to buy the yellow metal and potential purchasers should probably buy on recurrent weakness at around US$400 an oz rather than pay present prices.

Turning to regional markets, Singapore certainly led the field in relation to new developments with the announcement in mid-July that the Gold Exchange of Singapore (GES) had reached agreement with the International Monetary Market, a branch of the Chicago Mercantile Exchange (CME), to open a joint-futures market covering gold forex and interest rates. Members will be able to buy a contract on one exchange and sell it on the other, thus allowing the mutual offset of futures taken on either exchange and providing a total of 13 hours of trading each day. A number of technicalities remain outstanding in order to make the gold contracts compatible in Singapore and Chicago and critics will no doubt point out that gold activity on the CME is very low compared with Comex in New York. Nevertheless, the link-up can be seen as an enterprising step towards the creation of a unified 24-hour futures market and a further nail in the coffin of unregulated alternative markets such as the loco Comex hybrid. The plan will be submitted to the Commodity Futures Trading Commission shortly.

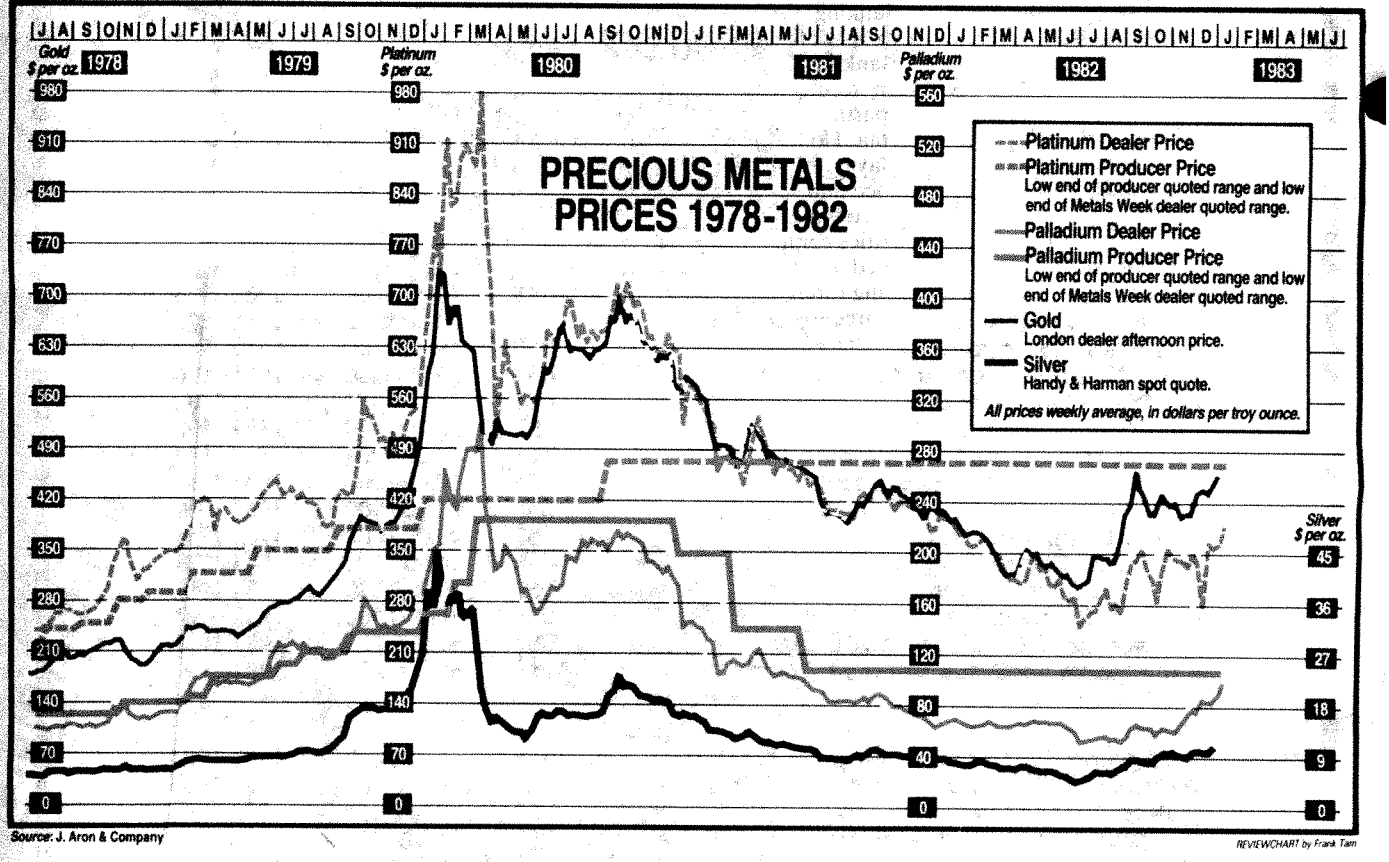
At the same time, the Monetary Authority of Singapore has made considerable progress in tidying up the local gold scene following the clamp-down on speculative traders last September, by insisting that all gold traders — whether internationally-minded or local — must join the GES. All those that do not qualify will have to cease trading and qualifications include doubling the necessary capital base to S$2 million (US$941,176).

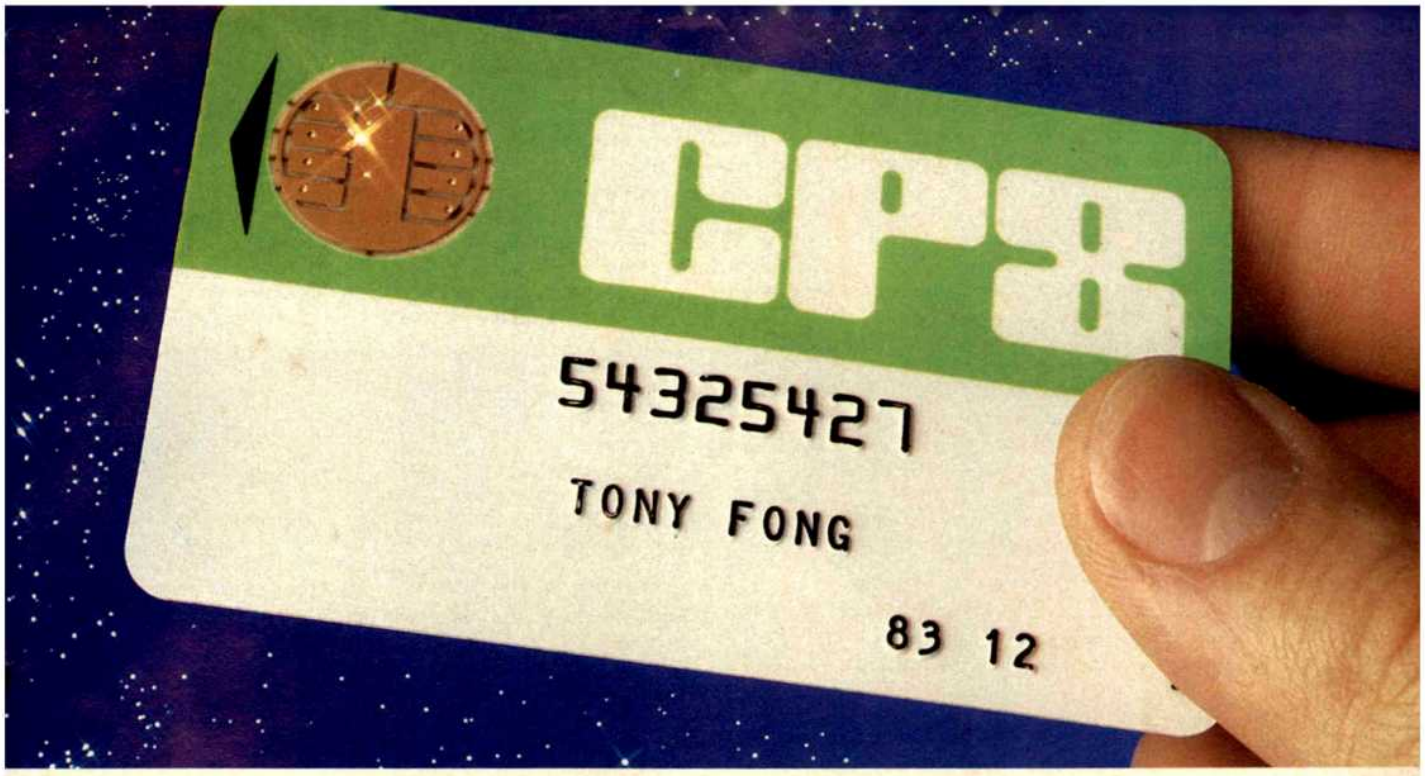
Turning to the gold-business scene in Singapore, activity remained relatively quiet in the first eight months of 1983. A significant volume of physical liquidation developed during the early months of the year when prices remained high, but activity since slowed in line with indecisive price trends. Official gold-import figures for January-May 1983 show a surprisingly high level of 105 tons (compared with 111 tons for the whole of 1982) but this is generally attributed to official gold movements rather than real market demand. Exports for the same period reached 18 tons, reflecting the liquidation by local interests referred to above.

Japanese markets also remained in the doldrums due to stagnant prices, with real demand only emerging at the ¥3,200 a gram level (equivalent to US$416 an oz at a ¥:US$ rate of 240), which ruled in early March. Business activity tended to be two-way — an interesting phenomenon in the light of the supposed one-way investment demand in Japan — and for every three tons sold to the public earlier in the year, one ton was subsequently sold back to the dealers. Gold imports remained at the very low level of 33 tons for the first six months of 1983, well down on the overall 1982 level of 140 tons. Some efforts were made to improve the market efficiency by developing a two-way loco Tokyo market (rather than simply onselling gold consignments at a mark-up) and this trend will no doubt accelerate in the months ahead. Gold consignments are extremely costly to the consignor if they do not turn over quickly and the new approach to loco-Tokyo trading will reduce these costs.

Australian markets also followed the generally quiet trend in the region, except for a burst of activity around the devaluation weekend of March 5-6. Activity on the Sydney Futures Exchange remained extremely depressed and overall development of gold markets in Australia continues to be inhibited by exchange-control restrictions. The local press reported in June that pressure was mounting for the Reserve Bank to give a clear indication of its policy towards the growing bullion-dealing market in Sydney, which would certainly be welcomed, given the enormous potential inherent in the domestic-production level of close to 1 million oz a year.

Last but not least, Hongkong was no exception to the quiet regional scene. Futures activity remained at a very low level, and the Hongkong Commodity Exchange appears to have lost round one to Singapore in the battle for supremacy over regional futures markets. Demand for physical gold was virtually non-existent — indeed, Hongkong exported about 34 tons back to Europe for re-refining in the first five months of the year and there was little of significance to record in the daily workings of the Chinese Gold and Silver Exchange and the international loco-London markets.



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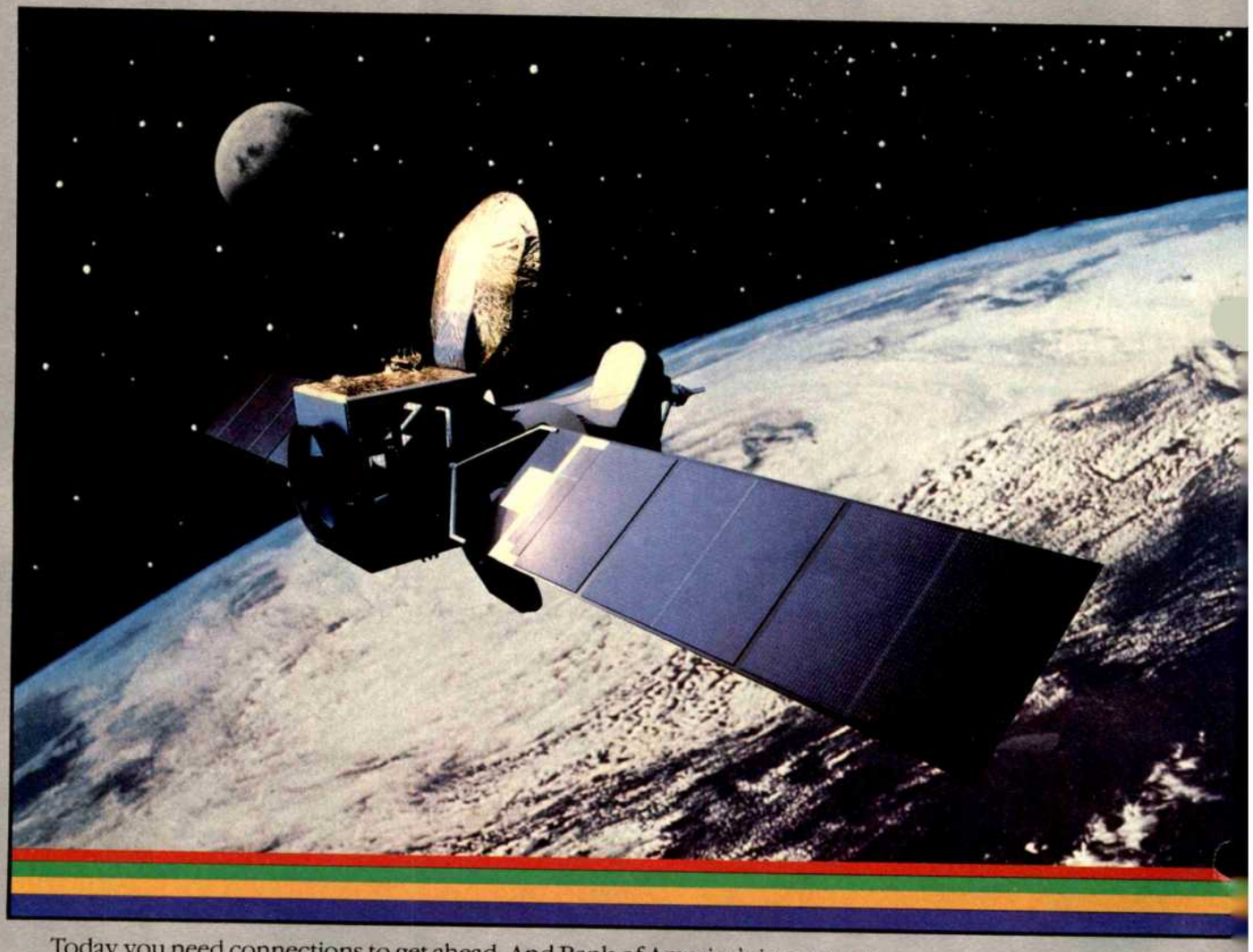

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# Encouraging bigger securities firms

*By Reginald Child in Seoul*

In their relatively short history, South Korea's merchant banks have built up an important role in short-term financing, providing foreign-currency loans and in investment-trust business: now they face not only increasing prospects but also challenges, particularly associated with the development of South Korea's still fledgeling capital markets.

The six merchant banks — Korea Merchant Banking Corp., Saehan Merchant Banking Corp., Asian Banking Corp., Korea-Kuwait Banking Corp., Korea French Banking Corp. and Korea International Merchant Banking Corp. — were all established under the special 1975 Merchant Banking Corp. Act (MBCA) as 50:50 joint ventures between foreign banking groups and South Korean interests. Foreign partners came from Britain, West Germany, Kuwait, Saudi Arabia, Hongkong and Japan and included such names as Barclays International, Lazard Bros., Chemical International Finance and Hongkong and Shanghai Banking Corp. Local interests are typically South Korean banks, major corporations and securities companies.

Their establishment was originally promoted at a time when there was need to diversify sources for inducing foreign capital. However, they were also encouraged as a source for providing medium- and long-term loans, corporate financial-advisory services and access to advanced financial techniques and expertise.

Although not allowed to accept deposits locally, make commercial loans or undertake insurance business, they can engage in a wide range of financial activities including factoring, leasing and security investment-trust business. Each bank has its own specific character and strength but generally their main sources of income have been from issuing and discounting short-term paper, providing foreign-currency loans and undertaking securities investment-trust business. This is despite the fact that the right to engage in short-term money-market operations was originally granted to compensate for their weak competitive position during the early stages of development.

The six banks have grown strongly and total assets at end-April stood at Won 1.1 trillion (US$1.5 billion) compared with Won 867 billion a year earlier and just Won 69 billion at the end of 1977. This amounts to around 1% of the assets of all South Korean financial institutions and is about a fifth that of the foreign banks.

In the initial stages, merchant banks relied fairly heavily on the issuance of short-term notes as a source of funds, but over the years foreign-currency borrowings have become increasingly important to the point where they now account for around a half, with notes issued making up a fifth.

Similarly in the use of funds (excluding securities-investment trust and guarantees) the share of funds used in note-discounting has fallen from 65% in 1978 to around 30%, while that for foreign-currency loans has increased from less than 10% to 40%. The share of medium-term loans has remained relatively small.

Last year the banks' operating margins were effected by sluggish corporate capital-investment demand, the fall in domestic interest rates to below the cost of foreign borrowings and developments in the short-term money markets in the wake of the kerb-market scandal. Net income tended to fall, though earnings comparisons have been effected by a change in the accounting year for South Korean non-bank financial institutions from year ending December to year ending March. However, private capital-investment has now picked up and demand for foreign-currency funds this year has become more active.

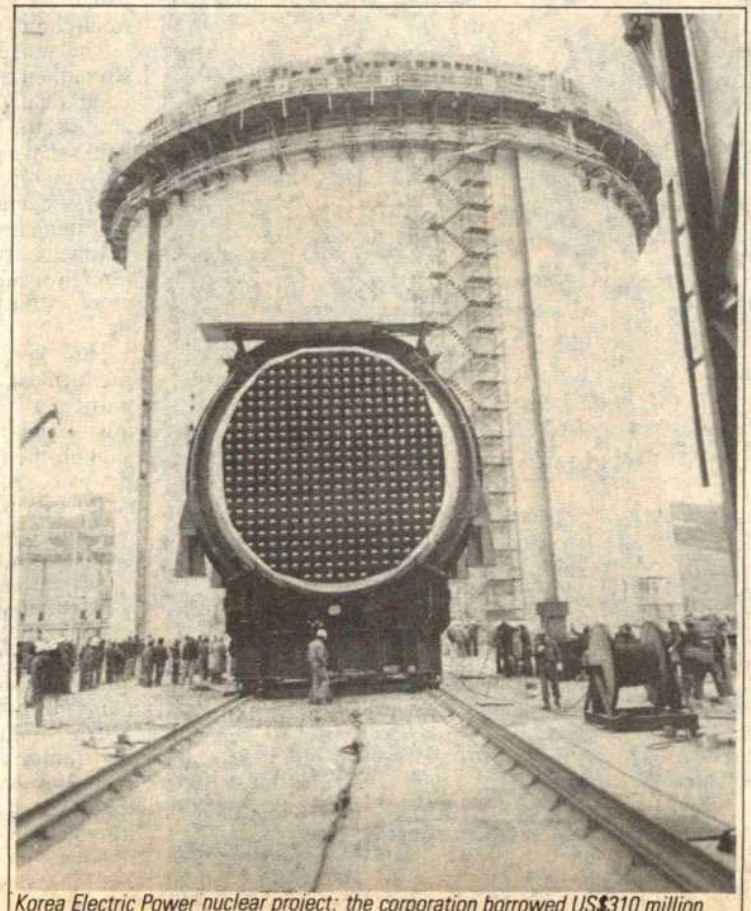
In addition to their direct lending in foreign currency, banks have also increased their involvement in inducing foreign capital on behalf of South Korean borrowers. Last year for instance, Saehan Merchant Banking Corp., which has concentrated on the development of this business field, acted as manager and adviser for a US$310 million syndicated loan to Korea Electric Power Corp.

With the government pursuing a tight monetary policy — and commercial banks reining in on lending — South Korean corporations have resorted increasingly to more direct forms of financing such as the issuance of commercial paper and corporate bonds. While this increases competition for merchant banks in raising their own funds in the short-term markets, it has boosted their business in capital-market activity.

Merchant banks participate actively in the management and underwriting of government, public and corporate bonds and in the guarantee business in relation to debentures issued by private enterprises. Taking advantage of low-coupon rates in effect since June last year, domestic firms raised a record amount of funds in 1982 through issues of corporate bonds. The total amount issued was double the 1981 level reaching Won 2.1 trillion and issuing activity has remained buoyant in 1983. This has provided brisk underwriting and guarantee business for merchant banks, though with the issue of paper outmatching investor demand there are some problems of placement.

Merchant banks are also heavily involved as investors in domestic-bond issues, especially in their role as securities investment-trust management companies, which they share with the three domestic specialised investment-trust companies. Similar in nature to mutual funds, investment-trust companies place trust funds in securities by issuing beneficial certificates to each investor.

With last year's interest-



*Korea Electric Power nuclear project: the corporation borrowed US$310 million.*

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rate cuts maintaining a significant gap between yields on bank deposits and investment-trust beneficiary certificates (8% versus approximately 14% in March 1983), investment-trust companies have shown continuous growth and are now the major underwriters of corporate bonds. Although with a recent lowering of bond rates to 11% the trusts are reducing their acceptance ratio of the total volume of investment-trust shares outstanding of some 2.9 trillion (one share equals Won 1 at time of establishment) at end 1982, those of the merchant banks accounted for around a tenth. Further expansion of the banks' trust business is limited by a ceiling on shares of five times net worth which the banks are subject to under the MBCA, though this ceiling may be increased.

The government plans to develop further the still relatively immature bond and equity markets, partly to improve the companies financial structure and to attract funds from non-institutionalised markets. This may provide further opportunities for merchant banks, such as in providing corporate-financial advice, a traditional merchant-bank role which has so far been difficult to develop in South Korea. Draft plans recently released by the Ministry of Finance include proposals to:

- encourage corporations to issue new shares through rights offerings;
- ease restrictions on going public;
- allow medium-size firms to enter the capital market;
- enable non-listed firms to buy securities issued by venture businesses and other small companies.

The moves are also seen as steps to strengthen the market prior to opening it up gradually to foreign investment by the end of the decade. Already merchant banks have been indirectly involved in drawing foreign interest to the South Korean stockmarket and in advising on the establishment of the two international investment trusts offering units through foreign-securities companies for investment in South Korean domestic securities.

However, if there are good prospects for the further expansion of merchant banks, particularly in the provision of financial advice and inducement of private foreign capital, then there will also be new competitive challenges. As part of the liberalisation moves for the financial sector, deposit-money banks will in the future increasingly engage in most merchant banks' business areas.

Additionally the government wants to encourage the establishment of bigger securities firms up to international standards and will allow foreign-securities companies to hold up to 10% capital in their South Korean counterparts — and possibly from next year. The projected larger securities companies, which will be allowed to establish overseas branches, will also be able to deal in such business areas as payment guarantees on corporate bonds and purchase and sale of commercial paper.

# Fears are that rupiah-funding may become harder

*By Manggi Habir in Jakarta*

Despite a record build-up in assets and earnings in the past year ending March 31, non-bank financial institutions (NBFIs) — with the introduction of new banking regulations — are becoming increasingly concerned whether the good times of easy money are finally coming to an end. The fear is that the NBFIs, already disadvantaged in their efforts to attract scarce rupiah funds because of existing tax regulations, are expected to find rupiah-funding more difficult now that state banks are free to set their own deposit rates. The effects are not being felt yet with the rupiah market, still liquid after the March devaluation, but with the dominant role and potential effects of state banks in the rupiah markets, NBFIs are worried that their future funding activity could be severely jeopardised. This could mean reduced activity not only in their lending activities done through the money markets — currently their main source of earnings and activity — but also the fledgeling capital markets: an area in which, now that they are placed under the supervision of the Ministry of Finance (MoF), NBFIs will apparently be forced to be more active in future.

One determining factor behind the NBFIs' impressive assets growth and earnings was the 27.6% rupiah devaluation in March. Last year, the country's balance of payments came under extreme pressure with persistent world recession and the glut in the world oil market. The poor export performance — together with growing imports — led to a rise in the current-account deficit. This fuelled considerable speculation about a major rupiah devaluation which grew stronger towards the end of the year. In anticipation, borrowers scrambled to obtain whatever forward-exchange cover was available for their foreign-exchange risk on their foreign-currency loans and to convert the remaining ones to rupiah loans.

Consequently, the demand for rupiah loans rose dramatically and, with banks constrained in adding additional rupiah loans on their books because of assets-ceiling restrictions, many ran to the NBFIs. Unlike banks, the NBFIs' assets growth is limited only by a gearing ratio of 15:1, which can be easily overcome by raising the subordinated shareholder-loan portion — considered by the monetary authorities as part of the capital base. As a result of the surge in rupiah-loan demand, NBFIs' assets soared by as much as 53.8%: Rps 744 billion (US$953.85 million) as of March 31, 1982 from Rps 503.4 billion a year ago. In contrast, the NBFIs' previous year's annual growth amounted to 31.8%. A significant part of this growth was funded by offshore borrowings made possible by doubling NBFIs' swap facilities with Bank Indonesia (BI), the central bank. Rupiah availability in the market started to dry up, raising interest rates as high as 29%.

Most banks and NBFIs also prepared for the devaluation by slowly increasing their rupiah borrowings to finance the build-up of US dollar assets. Additional rupiah funds were also obtained by not renewing borrowings under uncommitted facilities at maturity. So, by the time the rupiah devalution took place, most NBFIs had their positions substantially covered. This is reflected in the substantial growth in earnings (by as much as three times) to Rps 8.1 billion for the first quarter of 1983 from Rps 2.9 billion a year ago. Most NBFIs have booked their foreign-exchange gains in the first quarter of this year. In contrast, the previous year's first-quarter earnings growth was 24.5%.

After devaluing the rupiah, BI made another surprising move. This time it lifted assets-ceiling restrictions on banks and allowed state banks to set their own deposit rates. The intention was to encourage state banks to mobilise additional domestic rupiah resources to replace the cheap rupiah-liquidity credits it is now getting from BI. Two major state banks, Bank Bumi Daya and Bank Dagang Negara, immediately doubled their rupiah-deposit rates to 15-16%, causing considerable apprehension among banking circles. Given the state banks' dominant position in the rupiah local market — accounting for some 80% of total industry loans and deposits — any significant change in policy would have a sizable impact on the local money markets.

This is particularly worrisome to the NBFIs which are already disadvantaged because of existing tax regulations with respect to rupiah funding. Under the regulations an investor's interest income from rupiah bank deposits is tax free, but interest income from rupiah placements with NBFIs are subject to corporate income tax. This is one reason for the generally higher interest offered by NBFIs as opposed to banks. But in the past, with the state banks not particularly active in the market because of their low fixed-deposit rates, NBFIs had little difficulty funding themselves despite tax regulations. With the freeing of deposit rates, however, state banks are expected to play a more active role in the domestic money markets.

DAVID JANSEN

*Road-building in West Kalimantan: the state highway company will raise Rps 100 billion with three bond issues.*

NBFIs are, therefore, calling on the monetary authorities to review existing tax regulations and allow a tax exemption on interest income from rupiah placements with NBFIs. This, NBFIs argue, would allow them to compete for rupiah funds on the same basis as banks. But, so far, there has been no reaction from the MoF.

The feared shift of substantial rupiah funds to state banks, however, has not yet taken place and some analysts feel that it will be some time before state banks will have a significant affect

on the market. They argue that state banks, having been used to dealing with government entities — which are often compelled to deposit their rupiahs with state banks — would have to adjust their marketing strategy and service efficiency significantly if they are to attract more funds from the market effectively.

Aside from a change in their rupiah-funding outlook, NBFIs now have to contend with the MoF as opposed to BI which is considered to be more familiar with the banking and financial sector. The reasons for this switch is not entirely clear, but observers feel that MoF, which has control over the inactive capital markets, would like to have more leverage in forcing increased NBFI involvement in the share and bond market.

But earning opportunities in the relatively young and undeveloped capital markets are very limited and, with the stock exchange not allowed to perform its market function, the future outlook is not very promising. With limitations on sharp share-price fluctuations, Indonesian investors tend to stress dividend yields. But, in a recessionary situation, listed companies have had considerable difficulty in providing dividend yield that closely resembles yield on bank deposits. It is not surprising therefore, that investors' interest in share investment is on the decline. This is reflected somewhat by the drop of the Jakarta stockmarket index to 97 in July this year from 100 in August last year.

Last year, a total of six equity issues went to market with a total volume of Rps 20.3 billion. This year four equity issues have been offered and another five to seven issues are under consideration. For the last three issues offered this year, NBFIs have noted increased difficulty in selling the shares and the last issue, PT Sari Husada, became the first issue to be undersubscribed. Because of this, NBFIs are becoming more cautious about bringing new issues to the market — to the great concern of Bapepam (the capital market executive agency), whose objective is to increase the number of listings (currently at 16).

Bonds, after being absent for about two decades, re-emerged this year. So far three five-year bonds each carrying 15.5% coupon rates have been offered. All have been issued by government entities and represent government efforts to encourage state bodies to seek off-budgetary financing. Carrying fixed-interest income, bonds appear to be more easily accepted by the local investor but, due to the soft market, not all issues have gone smoothly.

Jasa Marga, the state highway company which was the first to issue bonds amounting to Rps 23.7 billion, plans to raise an additional Rps 100 billion in three successive bond issues. Until now two NBFIs that have been active in bonds have been Ficorinvest — partly owned by BI — and Merincorp owned by the state bank, Bank Ekspor Impor Indonesia, Morgan Guaranty International of New York, Sumitomo Bank of Japan and Mees and Hope Finanzgesellschaft A. G. of Holland.

Meanwhile, the NBFIs' outlook for the rest of the year is not particularly encouraging. With funding problems looming on the horizon, demand for additional loans not likely to pick up soon and capital markets still not expected to be a source of significant earnings, it will be tempting to just let the impressive first-quarter earnings compensate for the expected slack in the remaining three quarters.

MALAYSIA

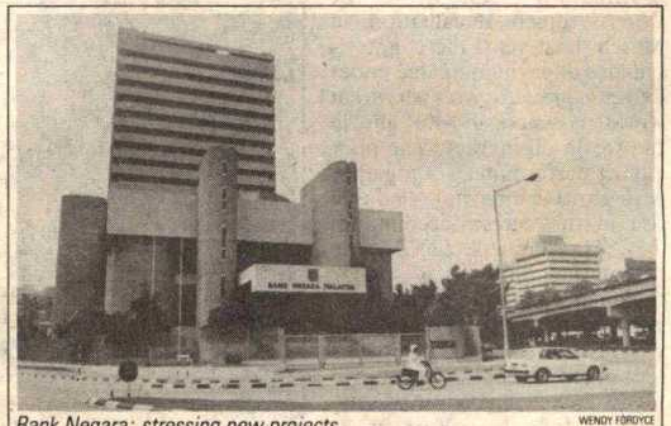
# Not a brilliant year

*By Patrick Smith in Kuala Lumpur*

When Malaysia's merchant banking industry developed a dozen years ago, it was given a specific mission: to facilitate the transfer of corporate wealth to bumiputras (Malays and other indigenous peoples) under the New Economic Policy (NEP). While still pursuing this function, the country's 12 merchant banks are being looked to increasingly for other tasks: to act as a catalyst in the government's plans to revitalise private investment and to assist in the nation's move from commodity production into manufacturing and advanced industry. These are among the basic goals of the current five-year plan (1981-85); it is clear the government now attaches considerable importance — even urgency — to the role merchant bankers are to play in achieving them.

Last year was not a brilliant one for the merchant banking industry here. After a brisk period of expansion in 1981, when total resources grew by 30%, activity slumped in 1982 along with the rest of the economy. Resources grew by a more modest 23.8%, to M$3.59 billion (US$1.53 billion). Lending activity grew by 15.5%, against 40% in 1981. Loans extended last year totalled M$370 million. Fee-based activities grew by 18%, or M$13 million, compared with a 66% gain in 1981.

Reduced growth in the volume of fee-based activities, on which the government continues to place much emphasis, was almost across the board. Takeovers, acquisitions and capital-restructuring deals totalled 24 last year, against 41 in the previous period. Merchant banks underwrote 20 share issues valued at M$256 million, compared with 29 worth M$347 million in 1981. Reflecting the downturn on the Kuala Lumpur Stock Exchange, the volume of portfolio funds managed fell from M$951 million at end-1981 to M$682 million. The banks did nine project feasibility studies in 1982, compared with 20 the previous year. Leasing activities and bridging finance both declined in absolute terms by M$18 million and M$4.2 million respectively.



*Bank Negara: stressing new projects.* WENDY FORDYCE

The only area where growth outpaced the previous year's activity, in fact, was in loan syndications. Last year the 12 banks raised M$2.18 billion in 52 separate syndications, compared with 23 loans totalling M$344 million the previous period. The banks themselves took an 11% share of this business last year for themselves.

All Malaysia's merchant banks were successful in deriving at least 30% of their income from fee-based activities — a requirement introduced to encourage the development of expertise in the merchant-banking community and to avoid duplication with the activities of commercial banks. But the spread in this is wide: fee-based earnings ranged from slightly in excess of the minimum for some banks to some 63% for others, leaving the aggregate for the industry last year at slightly more than 40% (down from 45% in 1981).

In calculating this, bankers suggest that Bank Negara (BN), the Malaysian central bank, would be likely to average income over several years in the case of any bank whose income dipped below the mark. What is more, BN includes bankers' acceptances in its calculations of fee-based income. Bank commissions, made up mostly of acceptances, accounted for some 20% of fee-related earnings last year.

This year looks more promising — based on renewed activity

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in the stockmarket and a modest revival in economic activity. This will be especially good news for the fee-related side of the ledger. "I wouldn't expect an entirely rosy performance," says one veteran merchant banker, "but it may be considerably better than 1982."

Indeed, through mid-July there were already eight rights issues, the largest being the early July offering of 33.4 million shares of Harrisons Malaysian Plantations at M$2.10 per share (par value M$1). Total rights issues in the period were worth M$199.4 million. Including one deal arranged last December, new issues up to July 1 totalled six, with a combined value of M$137.1 million; all were oversubscribed at least 20 times. The year's largest new issue so far (46 million shares at M$1.30 each) was the floating of Development and Commercial Bank — handled, not surprisingly, by Merchant Bank subsidiary D & C Nomura, with assistance from Malaysian International Merchant Bankers as independent advisers.

Merchant bankers now predict anything from M$3-500 million worth of new and rights issues this year, based on forecasts of local capital demand and the attraction of raising it in a buoyant stockmarket, and activity is projected to extend well into 1984. Corporate finance activity, to whatever extent it revives along with the economy, is expected to be concentrated among small- and medium-sized companies.

Speculation also centres on the extent to which the capital restructuring required by the NEP will also revive. With restructuring exercises virtually completed in the extractive industries and among plantation groups, attention is now focusing on manufacturing companies. There are some indications, however, that the government is pressing companies to produce restructuring plans with less urgency than in the past — in part reflecting a desire to present a more hospitable image to potential investors.

Attention is also focusing on the banking sector. It was reported in May that bumiputra participation in banking activities had reached 70% — far beyond NEP's 30% requirement — making it the leading sector in terms of bumiputra involvement. Both the Hongkong and Shanghai Banking Corp. and the Chartered Bank, prominent among foreign-owned banks here, have restructuring plans under way — though these may now be delayed.

But beyond this there are the large Singapore banks — Oversea-Chinese Banking Corp., Overseas Union Bank and United Overseas Bank (and its affiliates, Chung Khiaw and Lee Wah) — none of which have been restructured. Some merchant bankers believe Kuala Lumpur will tread lightly in urging these institutions to restructure their equity, in view of the interests of Malaysian banks in Singapore. But others argue that such exceptions would cause resentment elsewhere. "HongkongBank and Chartered would certainly see undue delay on the Singapore banks as unfair," one source notes. "It will be an interesting area to watch."

Apart from the role merchant banks are to play in capital restructuring, BN is also stressing direct investment by banks in new capital projects. "It is not widely known that merchant banks are permitted to invest in corporate equity to provide venture capital [or seed money] to assist in the growth of enterprising businesses or new industrial ventures," the bank said in its 1982 annual report. "On the whole, each merchant bank is permitted to invest up to 10% of its paid-up capital and published reserves in the shares of a single enterprise, or up to 10% of the paid-up capital of the enterprise in which it invests."

Such reminders are much in keeping with the government's desire to maximise use of the banking sector as an engine of development. Merchant bankers also point out that this represents a basic shift from British-style merchant banking, on which the industry here has been modelled, towards German or Japanese investment banking. "Those paragraphs [in the BN's annual report] came as a surprise to many of us," commented one merchant banker. "It is easy to see the prime minister's hand in them." The bank also noted it would "administer the existing regulations flexibly to ensure that deserving enter-


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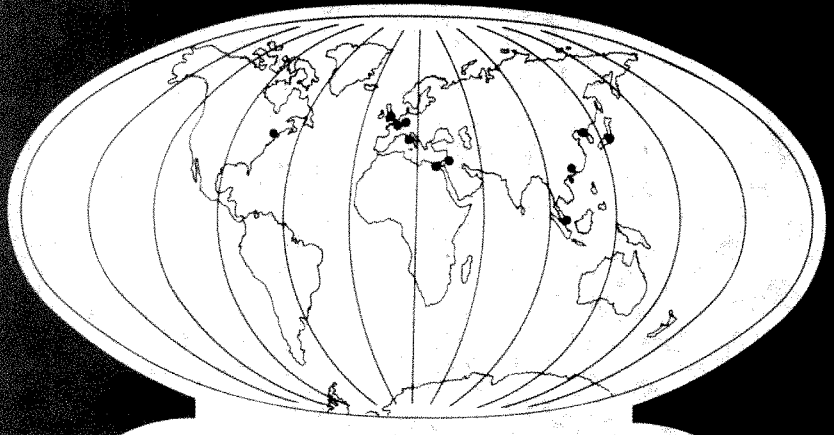

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prises will not be deprived of access to 'venture capital' from the merchant banks."

Such ambitions on BN's part help explain the importance it now attaches to one of the industry's lingering problems. "There is an urgent need for the merchant bankers to pay particular attention to the upgrading of their financial expertise and to enhancing the experience level of the professional staff," the bank wrote in its annual report. "The growing transformation of the industrial sector calls for significant improvement in and the widening of financial services which the merchant bankers are expected to provide."

No merchant bankers will discount the need for such improvements, though some indicate there have been some signs of maturity in the industry. The Association of Merchant Banks set up an education committee earlier this year which may begin its task by conducting seminars headed by experienced industry veterans. Still, the quality of advisory service and research is often painfully low, some bankers report. Syndications can be shabbily assembled and at times banks simply lack the maturity to disagree with clients. Roughly half of the merchant banks here, one close observer said, try to operate according to acceptable profession standards. But rather than watch a two-tier industry emerge over the next several years, the top banks would like to see an industry-wide improvement in standards.



BN was also disappointed with the industry's response to measures introduced in late 1981 allowing merchant banks to accept foreign-currency deposits from non-residents, to borrow foreign currency from non-residents and to lend in foreign currency to Malaysians. Such loans last year, the bank reported, amounted to only M$34 million, "while foreign-currency deposits accepted by the merchant banks remained negligible."

Bankers cite two reasons for the industry's failure to respond to the government's initiative, which was intended to expand the industry's funding base. First, foreign currency still has limited use in Malaysia (with the exception of equity purchases from foreign-owned companies or equipment imports), so interest rates on foreign deposits are not competitive with those offered elsewhere and most such deposits would have to be converted to Malaysian dollars (ringgit) anyway. Second, the tax structure, including a 40% corporate tax plus development taxes and excess-profits taxes ranging up to 10%, have been prohibitive. Bankers are now proposing these taxes be reduced to encourage more foreign-exchange commitments. "The government's concept is a good one," a banking source concluded, "but developing the business will be a slow process."

SINGAPORE

# Fee-based activities now and corporate advice

***By V. G. Kulkarni***

Merchant bankers used to be busy writing loan documents, parcelling out large chunks of other people's money to needy corporate and sovereign borrowers. Nowadays, with large-scale syndicated lending on a downward trend, many merchant bankers are reduced to rewriting some of the old loan documents. In Asia, they do not yet call it rescheduling debts: that phenomenon is still largely restricted to Latin America and parts of Eastern Europe.

With the international banking community exposed to massive risks of overlending, investment bankers in Southeast Asia are exercising great caution though there are unlikely to be any defaults in this region in the near future. The caution is reflected in a euphemism — rewriting the terms of finance — which essentially is an exercise in reviving the rates of interest. Even creditworthy clients are finding that loan terms are getting more stringent, which in turn will affect the overall volume of lending.

Merchant bankers in Singapore who generally cover Malaysia, Indonesia and Singapore will find themselves heavily under-lent this year. "New loans are very very slow in the making," says a European banker. "For syndicated loans 1982 was not a good year and this year is going to be worse," adds a leading American banker.

With lending becoming more risky and less fashionable, bankers have switched to the growth sector of fee-based activities: advice on corporate affairs involving mergers and takeovers. Attention has also shifted to underwriting rights issues and new public listings with the Singapore and Malaysian stockmarkets coming alive again. Bankers seem to be saying that, instead of risking depositors' funds on large-scale direct loans, they would prefer to take lesser burdens of underwriting if the investing public demonstrates its confidence in the region's stockmarkets.

The sluggishness of new loans has, however, not deterred new merchant banks opening up in Singapore which shows confidence in the long-term potential of the region. Merchant banking is of relatively recent vintage in Southeast Asia. The first merchant bank in Singapore was established in 1970 and by March 1982 the number had risen to 43: seven more have opened up since then with Kleinwort Benson becoming the 50th in July this year.

Merchant banks by their very nature are a diverse breed. Some specialise in loan syndications while others are active in corporate financial advice and still others in gold and most of them span the whole range of activities despite their specialties. Some are incorporated in Singapore while others are branch offices or representative offices. European institutions like Jardine Fleming, Morgan Grenfell and N. M. Rothschild specialise in corporate financial services. Dresdner South East Asia, which has the largest capital base among merchant banks incorporated in Singapore, emphasises syndicate loans. Others like Standard Chartered Merchant Bank Asia Ltd and Citicorp's Capital Market Group arrange loans which are funded by their parent commercial banks. More than a third of merchant banks operating in Singapore have no capital base of their own. However, others like Wardleys — a subsidiary of the HongkongBank — have their own capital base.

Most operate the currency units and so, taken as a group, the Asiadollar market dominates their total assets, indicating the importance of offshore wholesale banking in their overall business. Total assets/liabilities of merchant banks in Singapore amounted to S$22.13 billion (US$10.41 billion) at the end of the first quarter of 1983, up 9.1% from the corresponding total of a year earlier which was S$20.29 billion. The growth in assets/liabilities for the year ending March 1982 was a hefty 32.2%: capital and reserves amounted to 6.4% of their total assets/liabilities at the end of March 1983 as against 5% a year previously.

Loans and advances to non-banking customers showed a steady growth of 26% at the end of the first quarter of 1983 amounting to S$12 billion as against a growth of 25.7% in 1981-82. Loans to customers in Singapore (which form a very small part of their business) were up from S$1.26 billion in March 1982 to S$1.7 billion a year later. Loan figures for year 1983-84 are expected to be less healthy.

Banks are not required to publish their income derived from corporate advisory services, underwriting and operations in the gold market. Such income, along with other non-loan income, is reflected as other assets. Other assets of merchant banks by end-

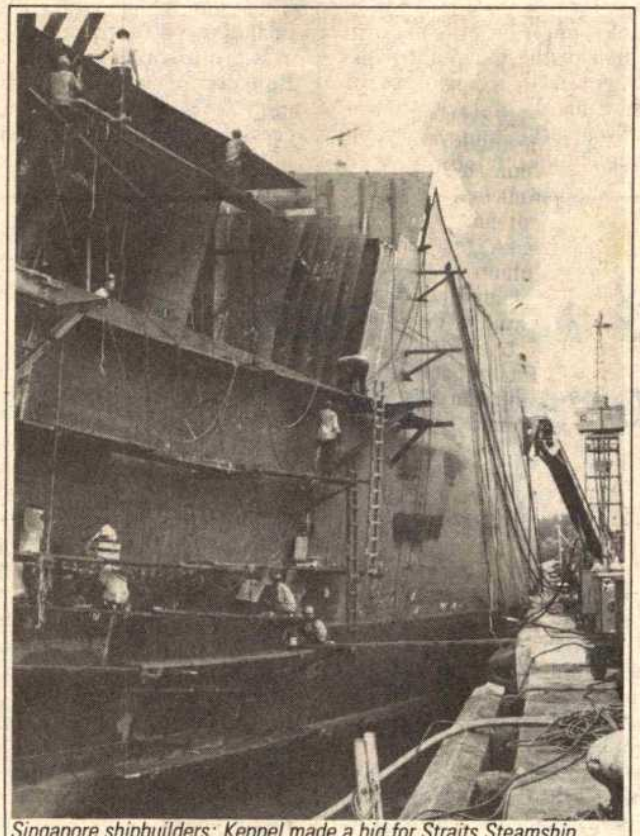
March 1983 were down to S$13.5 million from the year earlier total of S$592 million. However, this figure is only a partial reflection of income from these sources because how banks split their income between their Singapore offices and parent or associates abroad is not known.

However lucrative the corporate advice and underwriting in the local market may be, it is small potatoes because more than 80% of liabilities of locally operating merchant banks is due to banks outside Singapore. In other words, merchant banks at the end of March 1983 owed S$18.1 billion to banks outside Singapore, which in turn had lent S$8.6 billion to Singapore merchant banks.

Singapore merchant banks' dealing with banks abroad — total borrowings from and lendings to — are twice as large as their lending portfolios to non-banking customers. This is indicative of the extent of merchant banks' activities in the Asiadollar market. Total assets of this market have risen from US$27 billion in 1978 to US$54 billion in 1980, US$85 billion in 1981, and stood around US$103 billion at the end of 1982. After reaching the US$100 billion-mark in August 1982, the market has fluctuated between US$99 billion and a high of US$104.97 billion in April this year: by the end of May it was down to US$100 billion again. In addition to merchant banks there are many commercial banks which have licences to operate Asian Currency Units and are active in the Asiadollar market, justifying Singapore's role as a major regional financial centre.

The continuing growth of the Asiadollar market has also seen a rise in certificates of deposit and bonds denominated in US currency. The unflagging strength of the US dollar against other currencies and the volatility of interest rates has also given rise to floating-rate certificates of deposit (FRCDs).

In the first half of 1983 FRCDs worth US$185 million were issued by several Western and Japanese banks and brokerage houses like DBS-Daiwa, Nomura and Merrill Lynch. During the same period, Asiadollar bond issues amounted to US$340 million.



*Singapore shipbuilders: Keppel made a bid for Straits Steamship.*

With the outlook for syndications not very rosy, many merchant bankers are looking to the local stockmarket for corporate advice and underwriting business. Although the Singapore and Kuala Lumpur stockmarkets saw some profit-taking and necessary corrections to the bull run by the middle of this year, the prognosis by most analysts is that the markets are headed upwards and many rights issues and new listings are in the works. By the end of May 1983, 22 listed companies had announced rights issues totalling about S$1 billion. If the market holds to its course, more than S$1.5 billion is expected to be raised on the stockmarket in Singapore before the year is out, according to stock analysts. In June-July Keppel Shipyard made a bid for Straits Steamship which will end up costing the bidder anything up to S$500 million. Jardine Fleming, DBS and N. M. Rothschild were involved in the Keppel–Straits Steamship takeover saga. Competition among merchant bankers for other corporate business for rights issues was known to be fierce.

New listings in the first half of 1983, given the buoyancy of the market, have been very successful — some were oversubscribed by as much as 80-90 times — leaving no risk to underwriters. Merchant bankers, along with other financiers, have also been active in lending money to stags — people who buy shares to unload immediately at a profit — in the case of new issues. With oversubscriptions running so high, there is hardly any risk in lending a few million dollars to a stag for a few weeks for a new issue.

A development of long-term benefit to the merchant-banking sector came in March this year as Trade and Industry Minister Tony Tan announced tax incentives to help the loan-syndication business. Income from loan syndication was exempt from tax — the earlier tax rate was 10% — for the five years beginning April 1, 1983. However, soon after the tax break was announced in the budget proposals, it became subject to criticism because of the ambiguous nature of its wording. For a syndication to qualify for the tax exemption the Ministry of Finance (MoF) must be convinced that the "larger part of the syndication process must be done in Singapore."

This process is lengthy and involves several stages of negotiation among involved parties not necessarily stationed in Singapore. MoF has not announced any guidelines over tax exemptions and as yet there is no way of merchant bankers finding out who will qualify and who will not before they settle a deal. For their part the authorities are biding their time by simply stating that each case will be judged on its merits. As Hongkong offers such concessions with hardly any questions asked, it is doubtful whether Singapore's status as a syndication centre will be enhanced by the tax break unless the government clearly defines the regulation.

Another snag in relations between the government and banking sector is the issue of the island republic as an investment-fund management centre. In April this year, Morgan Grenfell's Singapore-based Asian Investment Fund, a unit trust set up in 1981, shifted its registration to the tax haven of the Channel Islands. Investment-fund managers routinely buy and sell equities: if such gains from sale of investments are to be taxed as trading profits rather than capital gains, unit trusts have no incentive in locating in a place like Singapore. Despite repeated pleas from local-unit trusts, the government has not clarified the legal ambiguity. So Morgan Grenfell's unit trust decided to move its base. With all the local pension funds controlled by the government's Central Provident Fund scheme, there is no scope to manage local pension funds for merchant bankers, though some of them hold out the hope that the government may allow some multinationals to organise their own funds. So, if overseas funds are to be managed from Singapore, the government must provide tax incentives, the argument goes.

According to banking sources, First Deputy Prime Minister Goh Keng Swee is opposed to allowing too many trust funds to operate from Singapore as he thinks it will internationalise the currency too much: some say he views it as another gambling gimmick like commodity and stock options. Younger members in the cabinet like Tan and Defence Minister Goh Chock Tong are, however, not known to be averse to the idea of a fund-management centre. But the Monetary Authority of Singapore headed by Goh Keng Swee wants to keep a close watch on the banking sector and is unlikely to agree to favourable treatment of the fund-management business.

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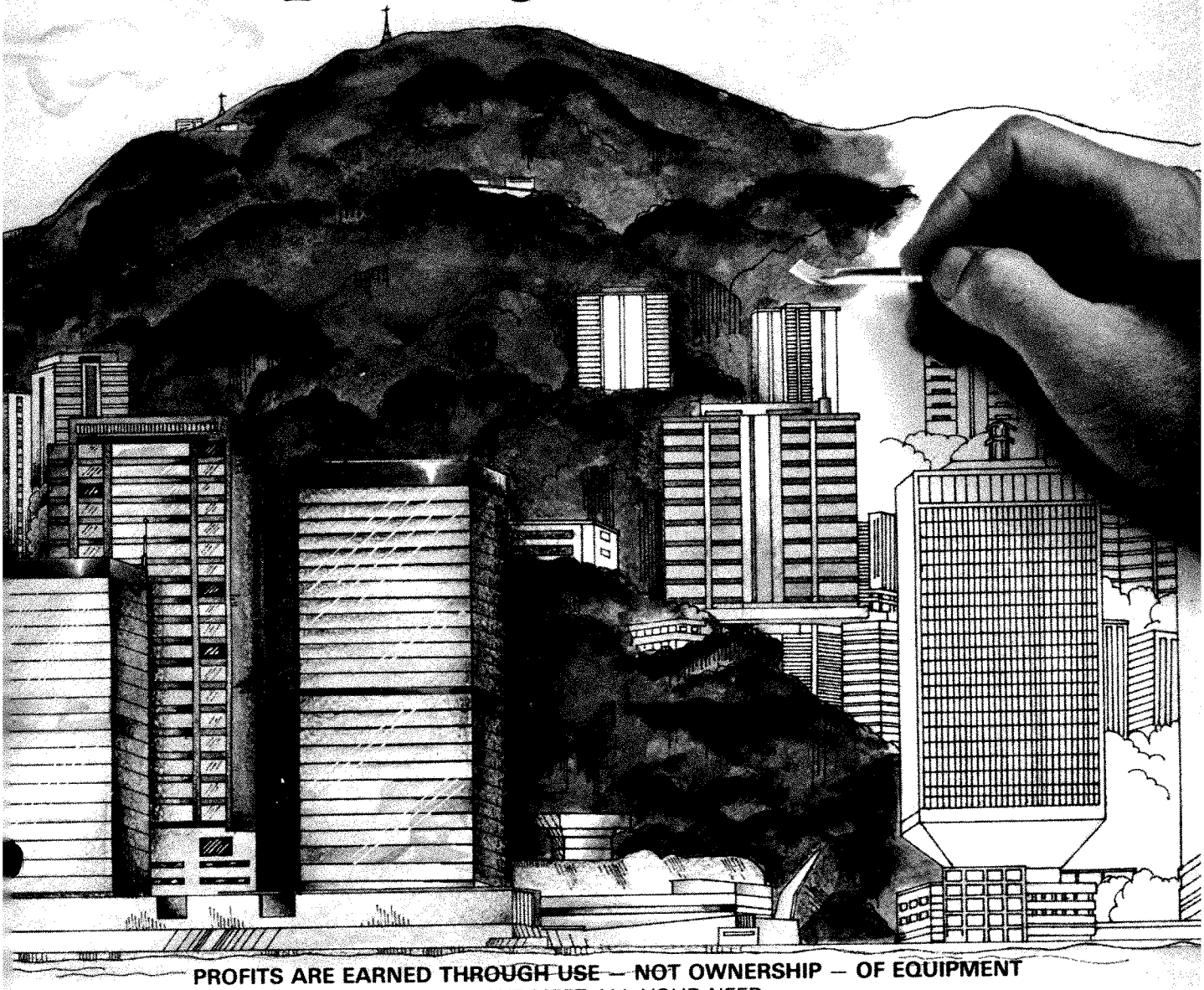

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**BANK OF TOKYO**

# There's much business ahead

***By Kovit Sonandang in Bangkok***

Now that Thailand's corporate companies are growing beyond the traditional family-sized business and the nation is heading for industrialisation, a number of leading financial institutions have become more serious in tapping the growing demand for financing and consultation through the introduction of merchant-banking services. Commercial banks have started to utilise the specialisation that their staffs have in providing financial services in both forms of financial services and loan arrangements.

Although they are just beginning, merchant-banking operations of Thai financial institutions are not limited only to the domestic market: the Bangkok Bank, Asean's largest, has now spread its services throughout South and East Asia. It has been doing well particularly in Indonesia, Malaysia, Singapore and Hongkong notwithstanding the domestic market. In Indonesia it has arranged a syndication of US$23 million for P T Distinct Indocement and helped an Indonesian firm acquire an oil-depot ship for hire to a Canadian-British oil-drilling joint venture. Just recently, the bank prepared a new financial structure and necessary documents for an Indonesian firm in acquiring a US$10 million fund from overseas. In Malaysia, it provided consultancy services to local interests in the acquisition of a major stake in a British-owned company. It also arranged a syndicated loan and export credit of US$40 million for a drilling-rig contractor in Singapore which received an order from India last year.

The bank's senior executive vice-president, Chote Sophonpanich, who is group director of the newly created merchant-banking department, noted that currently business outside Thailand is more lucrative as the combined volume in countries in this region is normally bigger than that of Thailand alone.

Locally, the bank began its merchant-banking services around two years ago when it joined with a Japanese bank and an American to act as consultants for Thai Oil Refinery Co's US$800 million refinery expansion project. After this it was appointed coordinator in acquiring a US$300 million short-term fund for the firm to finance the project. The long-term fund had been managed by a British and a French bank. Last year the Bangkok Bank joined with a consortium of Japanese banks in providing a US$30 million syndicated loan for Thailand's gas-separation plant and with United States banks in providing US$180 million in syndicated loans for the Electricity Generating Authority of Thailand.



"Thai banks are in a better position to tap the potential in this area except for underwriting business, which is prohibited by law, as they have expertise and are larger," commented Chote on why Thai finance companies do not compete with banks. Finance companies' lending is subject to a single-loan-limit ruling of 25% of their capital fund. The largest finance firm, Asia Credit, which has a capital fund of around US$30 million, can lend at the most US$7.5 million to one client. The amount is considered too small. However, they try to do what they are capable of doing — underwriting.

Asia Credit president Sunthorn Arunanondchai and his friend Sivaporn Dardarananda, who is now president of a leading finance and securities company, Thai Investment and Securities Co. — a joint venture of Bankers Trust, Thai Farmers' Bank and Dai-Ichi Kangyo Bank — jointly announced recently that they will join hands in venturing into the underwriting business. As Sivaporn put it: "We were set up originally as a merchant bank, but we could not do much about it because of the current legal framework — firms outside the stockmarket cannot offer shares to the public." That prevented firms from being listed in the market and took away the underwriting business which is the bread and butter of finance and securities companies.

However, both firms have recently found a way out, by first buying the bulk of shares from firms which want to be listed and then reselling those shares to the public at prices which, as agreed with the firms, give the underwriters a certain spread as fee. They did this for East Asiatic, one of the oldest European firms, which needed more capital for expansion. They are currently doing it for Siam Credit Leasing and they will go on doing it until the recent Public Company Act is amended. Besides Bangkok Bank, Siam Commercial Bank, another bank which eyes additional revenue from providing merchant-banking services and some finance and securities firms, the country's development bank, the Industrial Finance Corp. of Thailand (IFCT) is far-sighted enough to realise the potential of tapping merchant-banking business. Corporation president Sukree Kaocharoen disclosed that the corporation's policy now is to give more merchant-banking services, particularly to small industries, which would also enjoy loans from the corporation. Previously IFCT gave loans only to large and medium-sized industries. IFCT's merchant-banking services to small industries will also cover financial-management consultation and credit guarantee. It has recruited and trained more staff to provide the services and early next year it will set up a credit guarantee institute as separate entity.

Despite more venturing into the merchant-banking arena, Bangkok Bank's senior executive adviser and executive director, Amnuay Viravan, who chairs an eight-member executive

*Bangkok Bank's Chote; director of merchant banking . . . and Amnuay, senior executive adviser and executive director.*

committee responsible for the merchant-banking department, predicted that future prospects of this business are promising; and this is one reason why the bank decided to create the department a month ago. "We will do business in a collective manner, which means we will join hands with foreign [merchant banks] in providing merchant-banking services, particularly in the area of syndications. They have technical expertise and we have full knowledge, familiarity and better connections with clients in South and East Asia. A perfect combination," he said.

Chote is also optimistic. His department, which now has fewer than 10 staff, is expected to recruit 30 more because there is so much business ahead.

The bank's participation in major industrial projects, particularly the chemical-fertiliser complex on the eastern seaboard, will of course keep not only it, but also the whole financial-institution sector busy throughout the next decade. It is a matter of who is capable rather than who is tapping the sources. F

## PHILIPPINES

# Feeling like an endangered species

***By Leo Gonzaga in Manila***

Merchant banks look like poor relations in the local financial family, judging from the official list of the country's top 1,000 corporations in gross revenue terms last year. All 34 commercial banks are there — 21 of them in the first 100 as a matter of fact — and so are the 20 offshore banking units. On the other hand, only six of the 10 merchant banks, better known here as investment houses, are on the list.

The last of the 1,000 listed is credited with a gross revenue of ₱36.43 million (US$3.33 million). Since they are not on the list — and assuming that they reported their operational results to the government agency concerned last year — the following merchant banks must have grossed below ₱36.43 million: Citicorp Philippines Inc., First Metro Investment Corp., Pacific Capital Corp. and Philippine American Investment Corp.

Operational fortunes so far this year are not yet known, whether on a first-semester or first-quarter basis. But some of the relevant signs are quite encouraging for financial intermediation, the main revenue source of merchant banks. During this year's initial three months, deposit substitutes, traded on the money market, grew by ₱1.88 billion to reach a level of ₱18.44 billion last March 31. During the whole of last year, the increment was a minuscule ₱111.4 million because most funds went to banks as savings and time deposits, not to the money market as placements in commercial paper and other debt instruments.

As a result, savings and time deposits reached ₱55.21 billion last December 31 for an increase of ₱13.09 billion over the year-ago level and more than 10 times the increase in deposit substitutes. In this year's initial quarter, however, only ₱966.4 million more deposits were generated by the banking system, well below the ₱3.27 billion average quarterly accretion recorded in 1982.

Even so, merchant banks seem to feel that they are an endangered species. Some have sought or are seeking cover under the umbrella of bigger financial institutions. Ayala Investment this year and Private Development last year became mere units of Bank of the Philippine Islands and Far East Bank and Trust Co., respectively. More or less the same thing could happen to Citicorp Philippines and First Metro Investment: they are arranging functional tie-ups with Citytrust Banking Corp. and Metropolitan Bank and Trust Co.

At the very least, however, they are expected to stay in business, like Ayala Investment and Private Development but unlike Atrium Capital Corp. and Bancom Development Corp. The last two became casualties of the financial storm caused by the ₱635 million caper pulled by runaway business tycoon Dewey Dee in 1981. Despite a massive bailout by the government, they collapsed and had to be absorbed: Atrium Capital by International Corporate Bank and Bancom Development by Union Bank of the Philippines.

The backlash of the storm was still felt in early 1982, but the government did not find it necessary to provide emergency financing for any of the merchant banks. By October of that year, the central bank's supervision and examination department was able to report that merchant banks were managing their loan portfolios very well. It described the ratio of their combined past-due loans to total loans, which then stood at 18.7%, as "manageable and acceptable." It also noted that merchant banks with locked-in collectibles were providing valuation reserves to cushion losses in case of loan write-offs.

As it has turned out, some merchant banks are in a way striking out for somewhat bigger stakes in their investments, while playing safe with their loans. This is preparatory to a planned shift to thrift banking, which is made up of 12 savings banks — about the same number of private development banks — and more than 100 savings and loans associations. While more numerous, they are relatively smaller. The thinking seems to be that thrift banking offers more profit opportunities than merchant banking.

At least four merchant banks want to follow the lead of Piso Bank (formerly Philippine Investment Systems Organisation), now a successful development bank. The chosen route is via acquiring existing institutions instead of setting up new ones. AEA Development wants to buy Monte de Piedad Savings Bank, while Merchant Investment and State Investment are in the market for similar banks. Philippine American Investment has already purchased First Summa Savings and Mortgage Bank.

The contemplated shift must have been prompted by the increasing inroads of commercial banks into the traditional bread-and-butter source of merchant banks. The threat comes mainly from so-called universal banks, not only because of their huge size but also because of their expanded area of operations. Universal banks have many more assets, much more capital. Their licences cover both commercial and merchant banking as well as a host of other financial activities.

**PHILIPPINES TOP MERCHANT BANKS IN GROSS REVENUE**

| | Position on list | Net income ₱ million 1981 | 1982 |
|---|---|---|---|
| Ayala Investment and Development Corp. | 188 | 20.7 | 7.40 |
| Private Development Corp. of the Philippines | 196 | 17.46 | 10.23 |
| State Investment House Inc. | 300 | 13.78 | 6.54 |
| Merchant Investment Corp. | 654 | 4.20 | 1.55 |
| AEA Development Corp. | 664 | 2.49 | 1.56 |
| Anscor Capital and Development Corp. | 798 | 7.01 | 8.59 |

*Source:* Official list of top 1,000 corporations.

Merchant banks are also keeping a close (and worried) watch on offshore banking units which, of late, seem to be getting aggressive. If reports are correct, they are pressing monetary authorities for at least limited commercial-banking licences and, to get what they want, are asking their multinational corporate parents to use their collective clout on decision-makers here. In most cases, the head offices are among this country's major creditors.

It is unclear whether or not these are indeed attempts to utilise strongarm methods. What is clear is that Prime Minister Cesar Virata is strongly against allowing offshore banking units in commercial banking, whereas central bank governor Jaime Laya grudgingly concedes that these units need a "little more elbow room." To merchant banks, all this could mean more competition in financial intermediation and, therefore, it is time either to seek protection from bigger institutions or move to another area of operations. F

# Best days for pickings are ahead

***By Jayanta Sarkar in Calcutta***

Merchant banking has emerged as one of the fastest growing businesses in India: its best days are ahead, not behind. Most existing taps of corporate finance in the country are likely to be made tighter by way of conscious government policies to face up to the resources crunch: merchant bankers with their expertise and ingenuity in mobilising corporate funds can look forward to playing a bigger role in such a situation.

A reappraisal is now going on in government circles about the role of public financial institutions in corporate operations. These institutions, including the nationalised commercial banks, have come to be a major source of funds for most private-sector ventures. It has been said that a relatively big business house in India today can undertake a venture of, say, Rs 1 billion (US$101 million) with nothing more than some Rs 200 million contributed by the promoter, the balance being taken care of by financial agencies and the public.

An important section of policymakers are not happy with this state of affairs. They feel this practice mainly helps the established houses and in effect shuts off the emergence of new entrepreneurs. They would like financial institutions to play the role of a catalyst with their money rolling over in quick turns. An official committee has been set up to go into these issues and major changes are likely to follow when its report is published.

*ONGC's Bombay High: the company's loan is now US$1.17 billion.* MOHAN RAM

The other fact, now come to the fore, is that financial institutions hold anything between 25% and 50% of the shares in most leading companies. Many institutions operate on the stockmarket in a big way and, until now, have been content with keeping a low profile — despite having considerable voting rights — in the companies' managerial affairs and have generally baulked efforts to dislodge the existing management as long as it performed reasonably well.

But now the government is taking a fresh look at the situation and has made it clear it is not going to scrap the provision — largely dormant on the statute books for more than a decade — to convert into equity 20% of the original face value of loans

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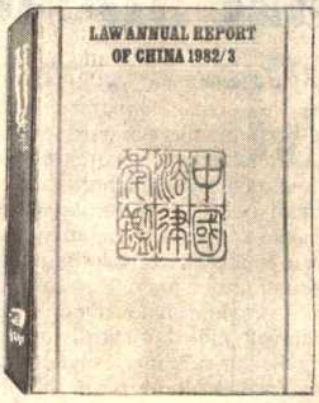


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given by financial agencies. The private corporate sector finds no comfort in the message it reads in all this and grapevine reports that the country may see an early election (due in mid-1985), which might set in train all sorts of populist measures, complete the discomfiture.

The merchant banker figures in this in a big way. One obvious corollary of these developments is that the private corporate sector will seek to tap market sources more and more to meet its block and working-capital requirements. This has to be done within the permitted debt-equity norms fixed by the government in consultation with the stock exchanges and others in the light of the project (capital-intensive or not), its importance (priority-sector or otherwise) and other criteria.

Merchant bankers should be the biggest beneficiaries. During the past couple of years the corporate sector has raised about Rs 10 billion annually from the market in one way or the other. There has been a spate of convertible and non-convertible debentures, supplemented by fixed deposits raised from the public. Almost all these issues have been handled by merchant bankers, and in the coming months and years this line of business is bound to grow sharply.

The other main growth area is likely to be mobilisation of offshore loans. New Delhi's policy in this respect is ambivalent: while it feels that such loans could develop into a major line of financing, it is at the same time painfully aware that they add to the nation's foreign debt burden and should thus be held within manageable limits.

Business in offshore loans is steadily picking up. A modest beginning was made in 1977 with a US$50 million loan for the Oil and Natural Gas Commission (ONGC), the country's principal oil-exploration and production agency. By 1981, the loan had gone up to about US$1.07 billion, bettered by the following year's US$1.17 billion. During the first half of 1983, syndicated Eurocurrency loans amounted to US$530 million including a fresh US$400 million credit for ONGC.

India's unimpeachable record as a borrower — untarnished even by the present balance-of-payments uncertainties — has ensured that its loan flotations get a favourable response. Several major Indian projects are soon likely to come to the loan market; these include the Karnal refinery, ONGC's South Bassein complex, six gas-based fertiliser plants, Vizag steel plant and a few thermal and hydroelectric power stations.

There are at least two other areas in which merchant bankers can expect good business. One of them is tapping non-resident Indians' funds. So far about Rs 750 million of such money has come into the country, but reported takeover bids by a London-based Indian businessman, Swaraj Paul, for two leading Indian companies — DCM and Escorts — raised a hullabaloo in business circles here. The government is now seeking a golden compromise that will still allow overseas funds to flow in but at the same time will not sweep Indian business houses off their feet.

The other promising area is lease financing which has picked up momentum only recently and is expected to maintain brisk growth. Many of the nationalised banks and private companies engaged in merchant banking have opened special windows for equipment-leasing operations.

Otherwise, more conventional activities like project counselling, tying up funds for overseas joint ventures, arranging buyer/supplier credits and pre-investment studies for investors are in full swing. Merchant bankers have proved their usefulness and firmly established their claim as important elements in the corporate world.

But there are also dangers. Companies without sufficient preparation or suitable background are entering the business in the hope of making a quick buck. They cannot only lower the standard of service but also shake the confidence of the business world. It is also a fact that merchant banking has so far touched only the upper crust of Indian business and is almost unknown in the small- and medium-scale sectors. Still another factor is the high cost involved in floating the issues, which many companies find difficult to bear.


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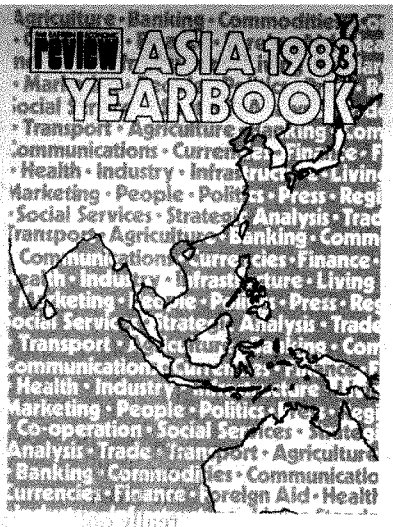


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# A tougher stance against foreigners in finance

***By Brian Robins in Sydney***

After a rush of new merchant banks opening their doors over the past decade, a limited rationalisation of the industry is presently under way; and this may result in the number of groups operating as full merchant banks being reduced over the next few years.

But it is not likely that there will be any major reduction of merchant banks operating here since they are on the verge of gaining access to the trading floor of the Australian stock exchanges. This will provide them with the opportunity to round out their range of services both to the corporate client and private investor.

A number of merchant banks have established cash-management trusts over the past two years or so, which has enabled them to tap the small investor and build up client lists: and changes under way with the securities industry may result in merchant banks being able to deal directly in stocks and shares through the floor of the stock exchanges which, for some, will provide an enormous fillip to their operations.

Full details of whether merchant banks — and others — will have full access to the stock exchanges through wholly owned subsidiaries will be determined over the next six months while the trade-practices commission is expected to ratify the proposals in the first quarter of 1984.

With the sharemarket in a bull phase, there have been a number of new share issues, but the bulk of this business has bypassed merchant banks. Underwriting has not been a major part of the business of merchant banks in Australia, though they have participated to a limited degree. But some have been keen to build up their expertise ahead of any changes which will give them greater access to the equity markets.

With the declining level of economic activity in Australia over the past six months, falling corporate demand for funds and little corporate interest in mergers or acquisitions, most merchant banks have had a tough time and been forced to move further into fringe areas of activity, as well as attempt to broaden their client base.

But now that the bottom of the recession has been reached, most suggest that corporate-loan demand is slowly improving and there is now interest in reviewing corporate strategies with a view to undertaking some mergers over the coming months.

But a major area of change for a number of merchant banks over the past few months has been the crackdown undertaken by the Reserve Bank of Australia (RBA) on dealing in third currencies, which has been an area of enormous growth over the past three years, especially in view of the enormous strength of the US dollar.

In a letter sent to banks in late March, RBA reminded local banks they should not trade in foreign currencies on their own behalf.

The letter stated: "We wish to remind all banks that consistent with reserve bank instructions on foreign-exchange [FX] trading by banks, banks may buy or sell FX in overseas markets spot or forward against another-foreign currency for the purpose of covering FX positions arising from approved transactions.

"Banks should not be undertaking 'professional dealing' in overseas markets nor should they deal in anticipating of subsequent positions on customer accounts."

The crackdown followed the 10% devaluation of the Australian dollar in early March, which had been preceded by a huge outflow of hot money in common anticipation of a devaluation. In the week prior to devaluation, A$1.5 billion (US$1.33 billion) had left the country.

RBA's move followed a substantial increase in foreign-currency hedging activities undertaken by a few private banks and a number of major merchant banks. But while RBA has controls it can exercise over trading banks, it can really only use moral suasion when it comes to merchant banks, as long as they are not in direct breach of RBA regulations.

No accurate figures on the size of the forward FX market are kept, though it is known to run well in excess of A$10 billion. RBA however, is seeking to obtain further information about the size of this market.

In response to the limitations on trading in third currencies, a number of local merchant banks have shifted people across to New Zealand, where they can continue their FX trading without the same strictures.

Freeing the entire FX market was a key recommendation of the Campbell Committe of Inquiry into Australia's financial systems, but the authorities are cautious about adopting this recommendation due to the major ramifications it would have on the operation of domestic economic policy. But if the shift of personnel and activity across to New Zealand continues, this may force the authorities to act.

Involvement of some merchant banks in this sector is very large and Barclays Australia, an offshoot of Barclays Bank plc, boasted it had a forward book of "well in excess of US$2 billion" at its last balance date of December 31, 1982. It has grown strongly since then. Barclays is not uncommon and there are several merchant banks with books of similar size. By and large, merchant banks' expertise in this area has far outstripped that of trading banks, though it is a gap the banks are keen to close.

New starters in merchant banking over the past few years have

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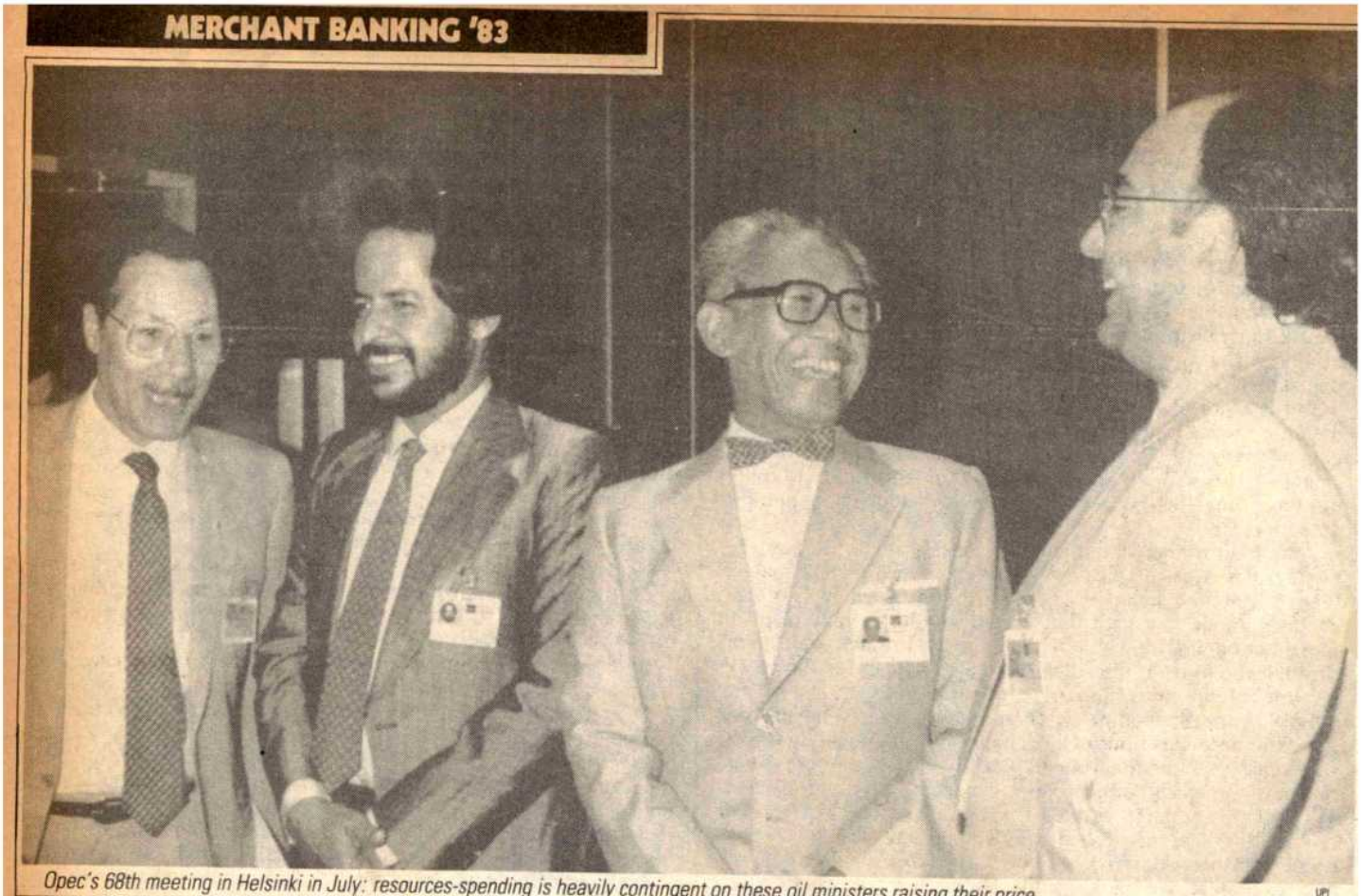


*Opec's 68th meeting in Helsinki in July: resources-spending is heavily contingent on these oil ministers raising their price.* UPI

primarily been wholly owned offshoots of big foreign banks, a marked change from the first round of big merchant banks established here which were primarily consortiums of big foreign-owned banks. But the problems associated with just who would stand behind the consortium affiliate — and in some cases conflicts over future-development strategies — had led to some seeking to offload their equity in the consortium banks in favour of hanging up their own shingle.

But, in addition over the past two months, the two biggest life offices have also moved further into merchant banking as part of an overall strategy aimed at rounding out their range of activities in the corporate-service sector.

Recently the biggest life office, the Australian Mutual Provident Society (AMP) bought Morgan Grenfell's 25% state in AMP–Morgan Grenfell, making it a wholly owned affiliate. AMP has been the slowest of the big life offices in broadening its activities in the banking field but it sees this move, for an undisclosed price, as being a key part of its as-yet unspecified thrust into banking. AMP–Morgan Grenfell's balance-sheet total is in excess of A$540 million, ranking it as one of the biggest forces within the industry.

AMP has yet to spell out how it intends beefing up its new merchant-banking arm, but it too is likely to be the vehicle used by the society to push further into the securities industry which will be possible under changes yet to be introduced. While buying Morgan Grenfell's 25% equity in this merchant bank, AMP has also taken up a 5% direct holding in Morgan Grenfell.

As well, the second biggest life office, the National Mutual Life Association (NML), which has recently completed a merger with the T and G Mutual Life Society, has also expanded its interest in merchant banking through the purchase of Samuel Montagu's 40% stake in Capel Court Corp., giving it 100% control of a merchant bank with a balance-sheet total of A$550 million. In addition, NML also has a 50.1% interest in Citinational, another merchant bank: the remaining 49.9% of this group's capital is held by Citicorp.

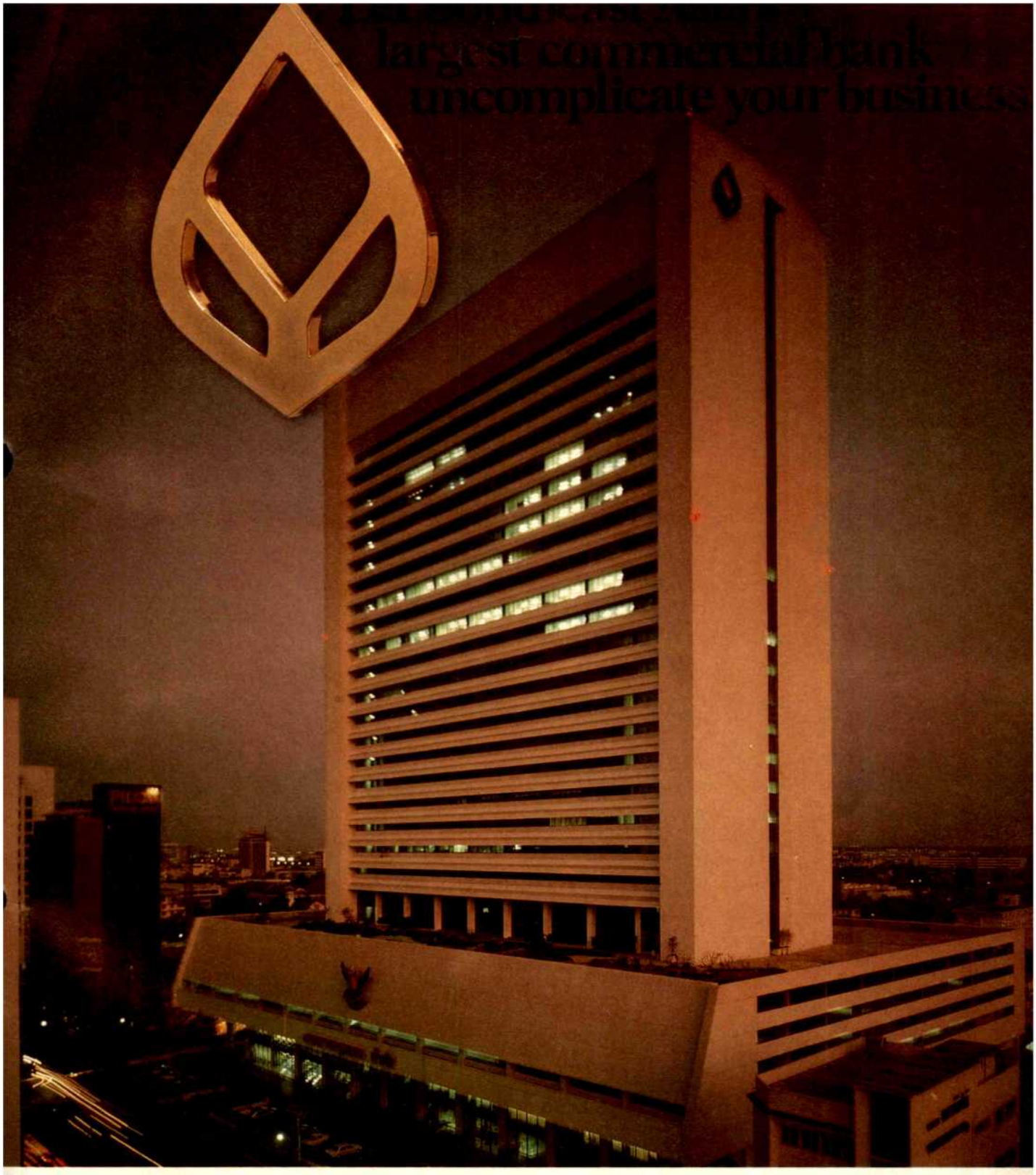
There is a proposal presently before the authorities which may result in the NML buying Citicorp's equity in Citinational. In return, Citicorp wants to take full control of Grindlays Australia, which is a wholly owned affiliate of Grindlays Bank plc, which is in turn 49%-owned by Citicorp. Citicorp far prefers to control its offshoots completely in Australia and the present proposal is being considered by the foreign-investment review board for approval.

The authorities have taken an increasingly tough stance when it comes to foreign ownership of companies operating in the finance sector, though the proposed changes to the ownership of both Citinational and Grindlays would appear to conform with government guidelines.

But while the degree of reorganisation of ownership of some merchant banks is limited to date, the slowdown in domestic-growth projections as a result of the slowing in the rate of resources-spending — which was heavily contingent on a rising Opec oil price — may force some other merchant banks to re-evaluate their presence in Australia, since the level of business is not enough to justify the extraordinary number of merchant banks now active in the market.

Some have been forced to fight aggressively for business, which has often involved trimming margins and taking on high-risk clients. While this may be considered satisfactory as an initial means of building up a client base, some may consider it unsatisfactory for the longer term.

While most merchant banks have been keenly awaiting the granting of new banking licences, the administration of Prime Minister Bob Hawke has established another committee of review, the Martin Committee, to recommend changes suggested in the Campbell Committee report. While rank-and-file membership of the Australian Labor Party is opposed to the introduction of foreign banking licences, senior party officials are not thought to have similar objections. However, prior to the granting of any domestic banking licences to offshore groups, the authorities are likely to encourage the establishment of more locally owned banks: no indications of timing are available.

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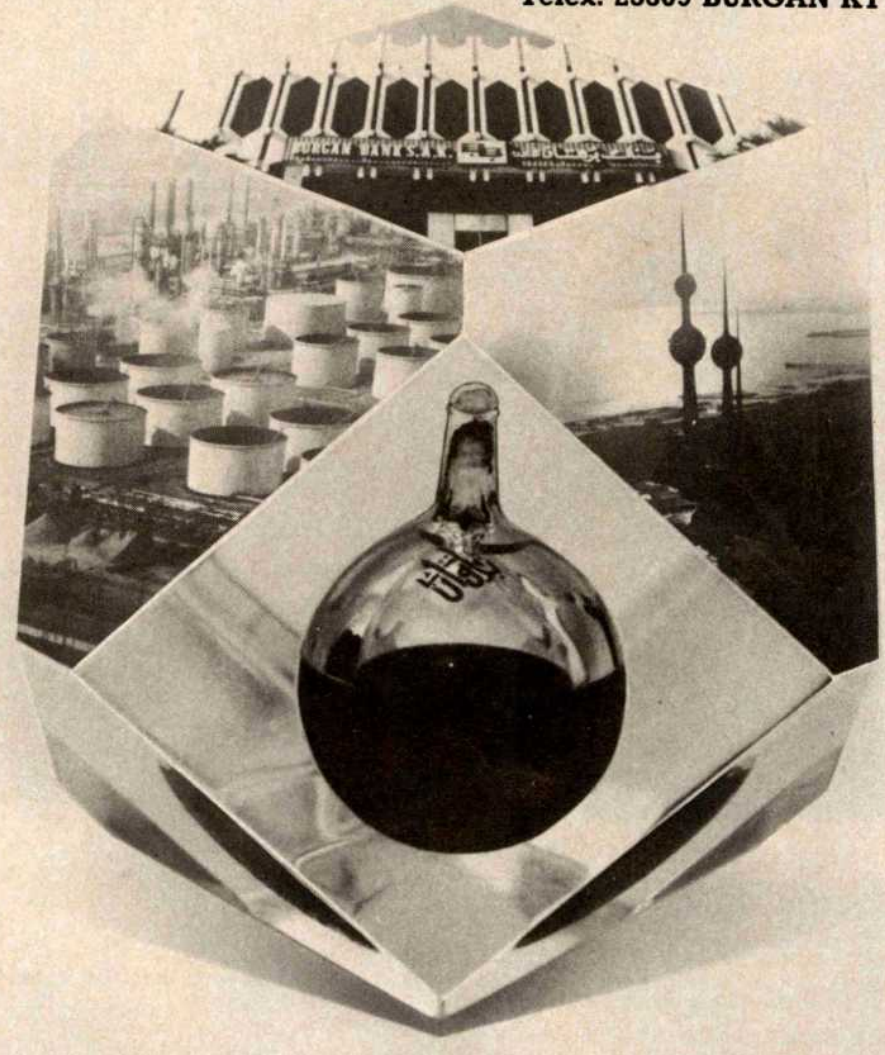

The flacon in the picture contains actual oil from Burgan oil field.

HISTORY

# The war that was surely to come

**At Dawn We Slept** by Gordon W. Prange. *Penguin*. HK$72 (US$9.95).

EARLY on December 8, 1941, hundreds of aircraft took off from four carriers of the Imperial Japanese fleet and set course for Pearl Harbour, less than 200 miles away. Midget submarines were scuttling along the seabed into Pearl ahead of them towards the United States Pacific fleet, berthed undispersed and uncamouflaged.

As usual, because of the fuel shortage the fleet was spending the weekend in port, while the Hawaiian radio — ordered to stay on the air so that incoming Flying Fortress B17 bomber reinforcements of the US Army could home in on its beacon — was unknowingly guiding in the enemy strike force.

The breakfast-time carnage was horrific: the US Navy lost eight battleships, three light cruisers and three destroyers. Four auxiliary craft were sunk, capsized or heavily damaged. The navy also lost 88 aircraft. The US Army Aviation Corps had 77 aircraft destroyed and another 128 damaged; 2,403 Americans died and 1,178 were wounded.

The Japanese lost only 29 aircraft, one large submarine and five midgets. But they never destroyed the fuel stocks and they never found the Pacific fleet's two aircraft carriers — they were not near Pearl at the time. But the Japanese navy had paid the US Government the compliment of doing exactly what Washington hoped it would do: make the first move against the US somewhere in the Pacific in the war that was surely to come.

Then US president Franklin D. Roosevelt knew it was inevitable: Japanese troops were already killing and raping in China and Manchuria and had moved into French Indochina after France was defeated in Europe by the Germans; the emperor's invasion fleets were heading towards British Malaya and Singapore, US installations in the Philippines and Dutch East Indies positions in Java and Sumatra. Worse than that, Japanese truculence and aggression had caused Roosevelt to order an oil embargo on Japan in August, leaving the Japanese navy with less than 75% of requirements for a two-year war.

The Japanese obliged Roosevelt certainly, but in a place where no one — least of all, his navy (Adm. Husband Kimmel) and army (Gen. Walter Short) commanders expected it. Anywhere else — Wake Island or Midway or a sudden heavy assault at sea — had been envisaged: even Gen. Douglas MacArthur in the Philippines was alerted.

As early as February 5 a message had been received in defence headquarters in Hawaii from then US secretary of war Henry Stimson, which said, in part: "If war eventuates with Japan, hostilities [could] be initiated by a surprise attack on the fleet or naval base at Pearl Harbour. Possibilities of a major disaster . . . warrant taking every step as soon as possible that will increase joint readiness of the army and navy . . ." Yet, despite constant staff work on possible attack scenarios, there was no attempt to keep a round-the-clock air and sea watch for Japanese shipping heading towards Hawaii.

Short made little use of his radar, his aircraft were not dispersed and could not take off quickly while their ammunition was stored elsewhere; and he looked on his job as being only to guard Hawaii, not to use his aircraft to look for the Japanese navy. That was the task of Kimmel (with whom he had little contact) who admitted at his court of inquiry that, for a period of 134 days in separate periods during the previous six months, he had been unable to find out where the carriers whose aircraft carried out the airstrike had gone. In fact they travelled north almost as far as the Aleutians before turning south and approaching Hawaii in total radio silence until the "Tora, Tora, Tora" (Tiger) success signal was flashed by the first aircraft over Pearl. Japanese submarines also kept silence, though an energetic mini-sub commander nearly blew the gaff when he was sunk by a US destroyer 62 minutes ahead of the arrival of the first planes.

Adm. Isoroku Yamamoto, who put the amazing pre-emptive strike together, had his problems, too, in getting the plan approved by the Japanese naval staff despite the fact that he was commander-in-chief of the combined fleet. When he was given the green light he received only four of the six carriers he demanded; the other two remained (with their aircraft) in support of the southern operation force pouring troops ashore in Indochina and Malaya.

Yamamoto saw the Pearl Harbour attack as a way of neutralising the US Navy for six months during which time the southern operation would plunge down to New Guinea and the Solomons and exploit the rubber, tin and oil riches of Southeast Asia. He dreaded war with the US because he knew Japan could not win. But, with oil for his ships in limited supply, he was determined to pile up his gains as high as he could before his government finally had to come to terms with the fact that it had taken on the world.

The *Japan Times* commented: "Clouds over mountains are symbolic of a new day beginning" — a flowery reminder that the go-ahead for the Pearl strike had been the words flashed to the First Air Fleet: "Climb Mt Niitaka." The mountain was the highest point in the Japanese empire (on Formosa as Taiwan was then known) and symbolic of the fact that the attack on the US proper would be the most formidable.

But as author Prange points out in this superb, minutely detailed 873-page history, after Pearl all Japanese mountains ran downhill. One of the amazing things about it all was that so many high-ranking Japanese *knew* that war with the US was crazy but were along for the ride anyway.

— DONALD WISE

TRAVEL

# At rest in the lap of luxury

**The 300 Best Hotels in the World** by Rene Lecler. *Macmillan*, London. £5.95 (US$9.30).

THIS is a book to make the traveller's mouth water. There is something about luxury hotels that sets anyone to dreaming about how it would be to be a millionaire and to spend one's life travelling — staying only in the very best of places, of course.

Even the names of some of the hotels here are enough to conjure up a vision of luxury: who could resist, for instance, the Golden Lemon, Dieppe Bay, St Kitts? And this reviewer wishes he had known about the Sebel Town House in Elizabeth Bay on various visits to Sydney. Indeed, there are already many well-travelled executives who use this book as their bible — and swear they have never encountered a bad hotel.

However, there are doubts about a couple. The title is definitive — the best — but Lecler seems to have stretched a point for the sake of geographical spread. It is difficult to believe, for instance, that any hotel in Ivory Coast ranks among the 300 best in the world. And while the Taj Mahal, Bombay, certainly does, the Taj Coromandel in Madras, while good by Indian standards, is a long way short of world class.

Also, "on special days," says Lecler, the Rambagh Palace, Jaipur, sends an elephant to meet you at the gate. Maybe, if they know you are writing a book on the 300 best hotels in the world. This reviewer's experience at 6 a.m. with six weeks' worth of luggage and equipment was different.

But even if you do not agree with all the hotel choices, you must agree with Lecler's "traveller's nightmares" and with those of his "traveller's rewards" that you have seen. And you are bound to be inspired to visit those you have not covered. Perhaps when you're a millionaire . . .

— M. MacL.

## Colombo finds the cost of the recent riots is less than was feared

# Picking up the pieces

*By Manik de Silva*

**Colombo:** A government-appointed task force, set up to assess the extent of damage to industry during Sri Lanka's July riots — when marauding mobs set fire to and looted many factories (REVIEW, Aug. 11) — has reported that the actual loss was less than was first feared. Its report, produced in 12 days, covered 116 industrial operations within a 30-mile radius of Colombo.

Although first impressions were that a large number of factories were non-operational, the team of central bank and government officials, who did extensive field work and interviewed owners and managers of the affected companies, concluded that 10 of the factories which were attacked are immediately operational, 19 would be operational within a month and 55 in about six months. "Only 28 industrial units were fully damaged," the task force reported.

After studying the report, Finance Minister Ronnie de Mel commented to the REVIEW: "If law and order is restored and strong and firm government is maintained, confidence can be re-established very quickly. Other countries have gone through much worse riots and come back stronger."

The study assessed losses in terms of production, exports and employment and also estimated physical damage done to factories and the loss of working capital. The view that emerged is that losses were heaviest in the garment-manufacturing sector, which has grown spectacularly in recent years, and in the coconut oil-milling industry, which has compelled the government to impose an export ban. (The ban on coconut-oil exports was imposed on August 12 following damage to nine of the country's top mills during the disturbances. Until they are back to normal, all efforts will be directed at meeting domestic demand of 4,000 tonnes a month.)

The task force, which estimated physical damage to be in the region of Rs 500 million (US$20.8 million), reported that it was not possible to quantify the loss to invisible assets — such as the inability to recover outstanding debts or the inability of a factory to function owing to lack of supply inputs provided by affected industries.

"The [cost] of damage to buildings, plant machinery and equipment is greater than the damage to operating capital," the report said. "The loss of raw materials and finished products [was] particularly high due to fire and looting. Such losses accounted for 46% of the total losses to capital." The report added that the replacement value for machinery, plant and equipment alone could be about Rs 1.75 billion.

The task-force report puts the total workforce in damaged industries at nearly 15,000 with "fully damaged" industries employing nearly 4,000. A further 5,500 people were employed in partially damaged factories which are not currently operational. The study estimated that about 700 jobs could be available immediately and once the rehabilitation and repair process got under way, a further 3,600 people could be employed within six months.

De Mel said: "Most industrialists want to recommence production immediately

*De Mel: no handouts sought.* FINANCIAL TIMES

or as early as possible. They are not looking for handouts from government, but want immediate attention to insurance claims, credit facilities from banks and assistance to airfreight spare parts . . .

"Most industrialists interviewed by the task force do not want government participation, either in their share capital or management." There had been suggestions of government participation at the time the government set up a Repair of Property and Industrial Establishments Authority (Repia) under emergency law soon after the riots were quelled.

Under the Repia law, all affected properties are vested in government. The task force has recommended that those industries immediately operational and those that could be reconstructed with their own resources be divested and the owners given the go-ahead to get on with the job of rebuilding and resuming production. It strongly urged the government to help expedite insurance settlement provide immediate credit assistance and help in procuring raw materials using existing agencies such as the Export Development Board and the Industrial Development Board.

"This is particularly important for the 32 industries which have export orders," the task-force report said. "Their total value of exports in 1982 was estimated at Rs 650 million and their export orders for the next 12 months were worth about Rs 800 million. These [industries] include garments, coconut oil, fruit canning, desiccated coconut, rubber and leather products."

Uncertainty over how the state insurance monopoly would handle claims had created a great deal of concern among owners of affected factories. Eventually, Trade Minister Lalith Athulathmudali, who is responsible for both the state-owned Insurance Corp. of Sri Lanka (ICSL) and the newer National Insurance Corp. (NIC), directed that they "meet their legal obligation forthwith."

Athulathmudali told the REVIEW he issued this directive because it was most important that confidence be restored. Without clarification of the insurance position, some of the affected industrialists could not start negotiating with banks. Informed sources attributed the foot-dragging by both ICSL and NIC to uncertainty over whether overseas re-insurers would regard the claims as arising from riots or from civil commotion. (The latter term implies an uprising against the government.) These problems are now being smoothed out.

Meanwhile, more than 2,000 claims from factory-owners as well as home- and vehicle-owners whose property was burned have been received. While ICSL maintained a judicious silence, NIC "guesstimated" that their liability could run to more than Rs 1 billion. ICSL handles NIC's re-insurance, retaining some of the risk and spreading the rest abroad.

The government sees the riot damage as an opportunity to rationalise Sri Lanka's industrial and urban planning structures. While Prime Minister Ranasinghe Premadasa, who holds the Ministry of Local Government, Housing and Construction portfolio, is very keen that the Pettah, Colombo's teeming bazaar area (which was very badly hit), be redeveloped with food and other wholesaling operations concentrated there moving outside the city limits, other concerned government agencies see many other possibilities.

The task-force report said: "This is an

opportunity for government to rationalise the industrial structure. The reconstruction of industries with excessive national capacity should be discouraged. Resources of industries with low national priority should be deployed towards new industries with higher national priority. The opportunity is also provided to relocate industries with the provision of better security and improved factory working conditions."

A spokesman for the Urban Development Authority, which reports to Premadasa, said: "The crowded area of the Pettah and other focal points in the city need replanning, with wider roads, parking spaces, fire gaps and other amenities." Businesses displaced by such planning would be provided with alternative accommodation in the relocation areas and rentals charged in these cases would be "extremely reasonable," the spokesman said.

A total of 442 business premises have been destroyed or severely affected in the Pettah and certain critical areas there already have been zoned into three categories. In the first, reconstruction would be considered acceptable; in the second, affected property owners will not be permitted to rebuild as the nature of the planned redevelopment requires that the government handle it, according to the authorities; while in the third zone, reconstruction by owners would be possible subject to the requirements of comprehensive planning.

The task-force report did not cover those non-industrial businesses that took a beating. A large number of groceries, pharmacies, barber-shops and small restaurants — particularly those serving cheap South Indian–style food, which did a roaring trade in Colombo as well as in many other urban centres — have been put in second place for the time being as industry was considered to have a far greater impact on the economy and society at large than non-industrial enterprises.

"The repercussions for serious damage to industry are immediate and visible [in their] longer-term implications," the task-force report said.

Seven of the damaged firms had foreign collaboration. According to the task-force report, six of these had foreign share-capital subscriptions amounting to Rs 32.47 million, while the seventh had a licensing arrangement with a foreign partner. There were also foreign loan commitments by these companies to the extent of nearly Rs 100 million.

A very detailed study of the damage suffered by the made-up garments sector revealed that while none of the 27 units functioning within the free trade-zone area, administered by the Greater Colombo Economic Commission, had been attacked, 18 out of 100 factories outside the zone had been hit. The result was that an estimated 15% of the rated capacity of the garments sector had been lost. The task force also estimated a production loss in volume terms of 15%.

Three concerned ministries — those covering textiles, trade and labour — have been assigned the responsibility of trying to ensure that garment quotas covering restrained exports to the United States, the European Economic Community and Sweden are filled despite the damage and that nearly 10,000 female workers displaced from the factories are provided with work. The authorities are now busy trying to farm out quotas from damaged or destroyed factories to functioning units both inside and outside the free-trade zone.

Vincent Pandita, permanent secretary in the Ministry of Textile Industries, said: "We have no real problem with the US quotas. When we negotiated our last agreement in Washington in March, we won a 13-month quota year ending in May 1984, so we could cope with production disruptions during the Sinhalese and Tamil New Year holidays in April. So, as far as the US quotas go, we have plenty of time to fulfil what we have been allowed."

*Colombo riot damage: a chance for a new start.*

The quota year for Sweden ended on July 31, a week after the trouble began. "We were a little worried because we know that heavy shipments are made at the end of the quota period," said Pandita. "We asked Stockholm for a month's extension and they have granted that for specified quantities of various items. The real problem related to the EEC, where 1 million pieces of quota items must be shipped by a December 31 deadline. This is the work we are distributing among the units that are working."

The Finance Ministry has admitted that the 1984 budget de Mel is scheduled to deliver in mid-November will be affected by the July violence, with revenue falling below estimates and expenditure rising substantially owing both to the demands of the rehabilitation effort as well as to the need for additional funding for both the armed services and the police.

"The budgetary estimates now are out of gear," said a Finance Ministry spokesman. "If these unfortunate events had not occurred, we were confident of being able to present a viable budget for 1984 with the overall deficit financed from bank borrowings of about Rs 5 billion. This would have been the smallest budget deficit in recent years."

Aggravating the problems caused by the riots, various ministries have sent in proposals running far above the public-investment programme approved by cabinet. According to the Treasury, these excesses will mean that even after provision is made for the usual under-expenditure, an unfinanced gap of Rs 9 billion — which will have to be funded by the banking system — remains. Thus an estimates reduction in the expenditure of all ministries is inevitable.

There is little doubt that the climate of political stability that the government of President Junius Jayewardene used to attract foreign investment to Sri Lanka has been considerably eroded by the violence. The next few weeks will see a concerted effort by Colombo to refurbish this image. Already, the tourism sector, which is a major foreign-exchange earner, has begun a campaign to bring the tourists back to the beaches and the cities. The first of the charters have begun to fly in, but the authorities admit there is a long, hard haul ahead.

Next April's Pacific Area Travel Association annual conference here will be one opportunity the Ceylon Tourist Board as well as the local travel trade will seek to exploit. Air Lanka has flown in dozens of foreign travel writers in a "see-for-yourself" campaign to convince holidaymakers who jammed airline offices in a frantic bid to get out at the height of the violence, that all is back to normal. Or, as tourist board chief H. P. Siriwardhana put it: "The sun is shining, the flowers are blooming and the people are smiling again."

# Trouble is developing

## The US system of preferences is under attack because of disagreement over the classification of beneficiary nations

*By Christopher Wood*

**Washington:** Differing views of what is meant by the term developing country are at the root of opposition to the proposed renewal of the United States' Generalised System of Preferences (GSP). Taiwan, South Korea and Hongkong are the main beneficiaries of the scheme, which grants preferential (duty-free) treatment to developing countries' exports to the US. The concern is that the issue could become politicised in the US Congress with a presidential election pending in 1984.

The GSP was implemented in January 1976, with preferential treatment extended to 140 countries for 2,700 products. With the system due to expire on January 3, 1985, the administration of President Ronald Reagan has now introduced a bill proposing to renew the GSP for another 10 years. But it contains important modifications designed to appease protectionist elements in congress.

The administration is hoping that the bill can be passed by the end of this year before electoral considerations make it a more contentious issue. If it is not, some observers think the legislation may be shelved during 1984. At hearings before congressional subcommittees early in August it was evident that certain congressmen were questioning fundamental aspects of the GSP, in particular the granting of duty-free privileges to countries they felt could no longer be properly described as "developing."

Congressional opposition to the GSP might seem overdone as the value of GSP imports in 1982 came to only 3.4% of the value of total US imports, and slightly more than 8% of the value of imports from all developing countries. Nonetheless, there are evident fears within the administration and among the concerned exporting countries that the GSP could become a political football.

There has even been some talk of major beneficiaries being excluded altogether. The potential effect of this on Taiwan, the major beneficiary, for example, is undeniable. In 1982, Taiwan exported US$8.9 billion-worth of goods to the US, of which US$2.3 billion-worth received duty-free treatment. The problem was summed up by a concerned Hongkong Government official. GSP renewal, he said, has become one of those "emotional things which have struck a raw nerve with certain congressmen, who have blown it out of all proportion."

Aware of this, the US administration has adopted a softly-softly approach. In fact it sees the programme — 19 other industrialised countries have already extended their GSP schemes up to 1990 and beyond — as a form of enlightened self-interest rather than altruism. It was described by Deputy Secretary of State Kenneth Dam to a House of Representatives subcommittee on trade in early August as a way of encouraging "self-reliant economic development through trade, not aid," and of demonstrating to the developing world the benefits of preserving free markets.

By increasing developing countries' purchasing power through the growth of their export markets, the GSP improves the US' own terms of trade. US Trade Representative William Brock commented to the same subcommittee: "Developing countries now purchase nearly 40% of US exports — more than the European Economic Community and Japan combined. They are now the fastest growing markets for US products . . . the GSP contributed to this growth by enabling developing countries to earn increased foreign exchange with which they in turn have purchased more US goods and services."

**UNITED STATES IMPORTS, 1982**

| *(US$ million)* | Total imports (%) | Total GSP imports (%) | GSP duty-free imports (%) |
|---|---|---|---|
| **World** | **243,951.9** (100) | **61,112.2** (100) | **8,425.6*** (100) |
| Taiwan | 8,892.5 (3.6) | 4,279.9 (7.0) | 2,333.4 (27.7) |
| South Korea | 5,636.8 (2.3) | 1,719.7 (2.8) | 1,089.2 (12.9) |
| Hongkong | 5,539.6 (2.3) | 2,473.1 (4.0) | 794.9 (9.4) |
| Mexico | 15,565.9 (6.4) | 2,950.3 (4.8) | 599.5 (7.1) |
| Brazil | 4,285.3 (1.8) | 828.8 (1.4) | 563.9 (6.7) |
| Singapore | 2,195.3 (0.9) | 794.7 (1.3) | 429.4 (5.1) |
| Israel | 1,164.3 (0.5) | 499.9 (0.8) | 407.2 (4.8) |

* All beneficiaries.
*Source:* US Bureau of Census.

But what critics are focusing on are the main beneficiaries of the GSP which, they argue, can hardly be ranked as developing countries. Why, they ask, should these comparatively advanced economies selling relatively sophisticated products enjoy duty-free privileges? Currently Taiwan accounts for 28% of GSP imports. Then comes South Korea (13%), Hongkong (9%), Mexico and Brazil (7%), Singapore and Israel (5%). Save for textiles, which are treated separately and where the domestic-industry lobby in the US is at its strongest, a whole gamut of products comes under the GSP — from electronic goods to toys, games, watches and clocks.

In the subcommittee hearings the administration has already moved to counter critics by arguing that if GSP privileges were removed from the major beneficiaries then the market share would not be filled by other developing countries but by developed ones — for example, Japan. Thus, Brock argued that if GSP privileges were removed from Hongkong jewellery products, the market would not go to lesser developing countries because they could not produce comparable goods. He said textiles were the exception to this general rule but these, as "sensitive" items, were not eligible for the GSP anyway.

Still, measures have been taken by the administration in the bill to satisfy critics. First, a recommended reduction in competitive-need limits has been proposed for the major GSP beneficiaries. These would now be set at 25% of the value of total US imports in a particular category or at US$25 million, whichever were greater. This means that if any one country obtained more than 25% of the import share in any category it would forfeit its duty-free status the following year. The same provision would apply if it exported more than US$25 million-worth of a certain item to the US. Subsequent restoration of GSP status would be at the administration's discretion. These changes will mark a significant modification, as limits are currently fixed at 50% and around US$50 million.

The administration has also proposed that it should have negotiating flexibility to allow it to waive competitive-need limits as an inducement to those countries willing to open up their own markets to US products. However, it has not stated specifically how this would work. Questions put by congressmen at the subcommittee hearings served notice that they would want more details of this, and that they would not be prepared to grant the administration complete latitude in waiving limits.

In this respect, Hongkong and Singapore find themselves in a potentially disadvantaged position because of their own open markets. Asked if this meant they had no bargaining counters when it came to trying to press for modified limits, one US official told the REVIEW there was "substantial appreciation" in Washington that these territories should not be prejudiced on this score.

Besides competitive-need limits, known in the jargon as objective criteria, discretionary elements have been introduced into the GSP which have meant a further whittling away of the number of items enjoying duty-free status. As a result of a petitioning process, whereby any interested US party — be it, for example, importer or worker — may appeal for a reduction in GSP treatment on an article, 31 products with a trade value of US$600 mil-

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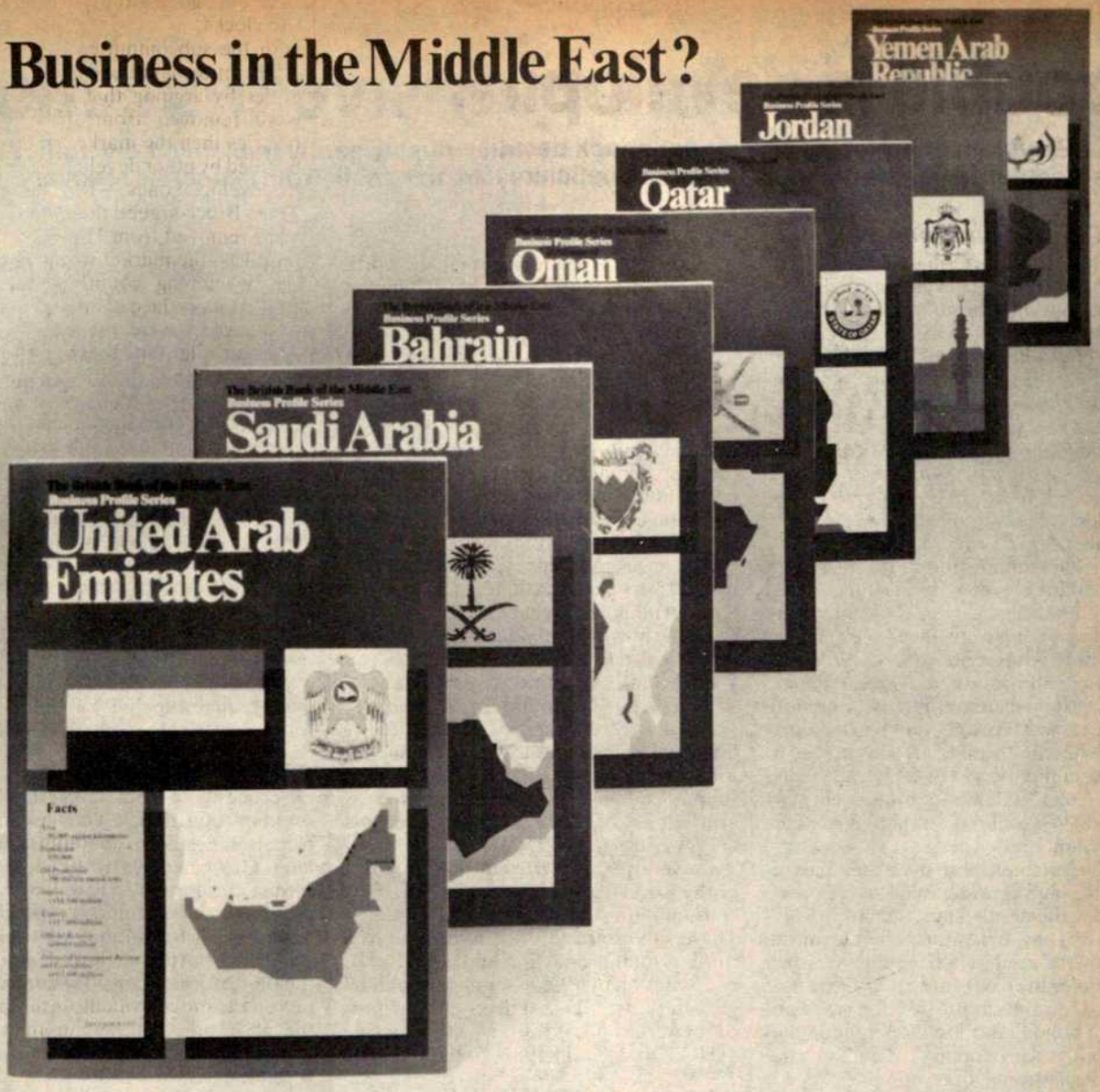


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Brock: textiles are the exception.

lion have been removed from duty-free treatment.

Also, the administration has increased its graduation policy against the seven major beneficiaries over and above the statutory competitive-need exclusion, which now totals more than US$7 billion annually in more than 200 categories. (Graduation is another purely discretionary exercise involving removal of duty-free treatment on an item.) This has led to US$443 million-worth of GSP trade being graduated in 1981, US$651 million in 1982 and US$900 million earlier this year, Brock said.

The effect of these measures has already meant a considerable loss for major GSP beneficiaries. Thus, out of US$4.3 billion of Taiwan's exports eligible for the GSP in 1982, only US$2.35 billion-worth actually received duty-free treatment. For Hongkong, the respective figures were US$2.5 billion and US$794.9 million and for South Korea, US$1.7 billion and US$1.1 billion.

So the major beneficiaries have reason to feel concerned about further cutbacks. Hongkong may feel particularly nervous because, unlike South Korea and Taiwan, it has no political or commercial clout in the US, as reflected in its lack of congressional support. On the other hand, Hongkong trade officials derive some comfort from the fact that Taiwan and South Korea benefit relatively more from the GSP. "This fact is going to make it difficult for the Americans to pick on us alone," one Hongkong official commented. Still, that this fear is even expressed reflects the strength of the attack on the GSP from certain quarters and that few in Washington are prepared to predict confidently an easy passage for the legislation renewing the system.

One administration proposal likely to meet with approval, however, is that which recommends that competitive-need limits be waived for the least-developed countries, a group of about 30 of the world's poorest. Given their concern about the developed masquerading as developing, congressmen can hardly turn around and deprive the truly undeveloped.

ENERGY

# An expensive transition

## Developing countries must urgently implement diversification programmes if they are to benefit from economic recovery

*By Jose Galang*

The much-awaited recovery in the world economy is expected to boost demand for energy — to power industries, fuel transport facilities and provide electricity to households. And in the present era of high energy costs, most less-developed countries (LDCs) can only ensure that such expansion in demand does not jeopardise further economic growth if they succeed in developing cheaper alternative sources to further reduce dependence on expensive imported oil, according to the World Bank.

Although crude-oil prices have declined by US$5 to US$29 a barrel (for marker Saudi Arabian light crude), forecasts continue to show that oil prices will go on rising in real terms over coming years. The World Bank, in its just-released report, *The Energy Transition in Developing Countries*, goes along with these predictions and encourages LDCs to pursue efforts to develop indigenous energy sources and implement measures towards efficient use of energy. The report covers energy issues in 69 LDCs.

Currently, LDCs account for a quarter of the world's production and a fifth of its consumption of commercial energy. These shares are forecast to expand to a third of total production and a quarter of consumption by 1995 assuming the annual growth rate in LDCs' gross domestic product were boosted from 1.9% during 1980-82 to 4.4% in 1982-85 and 5.5% by 1990-95.

Sharing the belief that energy consumption in developing countries will continue to grow faster than in the rest of the world (because their economies are growing faster and because of their rapid industrialisation and urbanisation), the World Bank estimates LDCs' energy use will expand to 2.59 billion tonnes of oil equivalent (toe) by 1995, compared to 1.35 billion toe in 1980. Total production will grow from 1.67 billion toe in 1980 to 3.08 billion in 1995.

The excess of production over consumption merely reflects the continued growth in crude-oil (and natural-gas liquids) production — estimated to rise from 919 million toe in 1980 to 1.38 billion toe in 1995 — which will be above the LDCs' oil-consumption levels of 626 million toe in 1980 and the estimated 934 million toe in 1995. Most LDCs will continue to see consumption of other energy resources — particularly of coal — exceed production.

So, the World Bank says, most LDCs will still need to pursue their transition to the era of high-cost energy by investing in their indigenous energy resources. This transition will require several measures:

- Increasing the efficiency of energy use through national pricing and other detransition will require several stern measures.
- Undertaking a vastly expanded and more diversified programme of investment to develop indigenous energy resources where these are cheaper than imported energy.
- Re-orienting industrial, agricultural and transport development strategies to take account of the higher costs of energy.
- Strengthening the institutional and management capability in the energy sector to carry out these tasks effectively.

The World Bank says this transition process is particularly difficult for the oil-importing LDCs (such as Sri Lanka, Nepal, Bangladesh, the Philippines, Thailand, Greece and Tanzania) which, while raising resources in energy-investment programmes, must at the same time continue paying for oil imports until the investments start paying off. In the case of the oil-exporting LDCs, restraint must be put on the growth of oil consumption and the use of other energy resources must be promoted to maintain the flow of export revenues.

The heart of the transition appears to be the improvement of efficiency in energy use in virtually all sectors of the economy, particularly the larger energy users — major energy-intensive industrial plants, large public and private transport enterprises and electric-power utilities.

The World Bank estimates that in the period 1982-92, total investments of US$1.43 trillion — or nearly US$130 billion a year — will be needed to help the LDCs meet their energy demand. As a percentage of GDP, real investment flows to energy will have to rise sharply, from 2-3% in the late 1970s to an average of about 4% over the next 10 years. Even if the price of oil settles at US$25 a barrel (in

**PRODUCTION/CONSUMPTION IN DEVELOPING COUNTRIES**

| *(million tonnes of oil equivalent)* | Production | | | Consumption | | |
|---|---|---|---|---|---|---|
| | 1970 | 1980 | 1995 | 1970 | 1980 | 1995 |
| Oil | 774 | 919 | 1,375 | 355 | 626 | 934 |
| Coal | 294 | 502 | 886 | 298 | 494 | 940 |
| Natural gas | 52 | 116 | 424 | 47 | 95 | 324 |
| Primary electricity | 56 | 130 | 396 | 56 | 130 | 396 |
| **Total** | **1,176** | **1,667** | **3,081** | **756** | **1,345** | **2,594** |

*Source:* World Bank.

1982 dollars), most of these investments would still prove advantageous to the LDCs, according to the World Bank.

The bank concedes that the substantial investment requirement poses a major financing problem. The bank, itself the largest official external-capital source for energy development in LDCs, has been lending increasing amounts to this sector: from US$1.1 billion in fiscal 1977 (the bank's fiscal year starts in July) its loans have grown to US$3.4 billion in fiscal 1982, or from 14.8% of its total loan portfolio in the period 1976-78 to 19.4% in 1979-81 and 25.8% in fiscal 1982. Its total lendings to energy of US$9.9 billion over the period 1979-82 were also associated with another US$11.2 billion in co-financing from other external sources.

Half the projected investments in LDCs' energy programmes will be in foreign financing. Even assuming the addition of non-guaranteed debt and direct private investment, mainly by the international oil companies, and real growth in official aid flows since 1980, the World Bank still believes that total external flow could not have exceeded US$25 billion in 1982.

Total external financing for LDCs' energy programmes would therefore have

**INVESTMENT REQUIREMENTS IN DEVELOPING COUNTRIES, 1982-92**

| *(US$ billion; 1982)* | Total | Annual average |
|---|---|---|
| Electric power | 658.4 | 59.8 |
| Oil | 465.9 | 42.4 |
| Refineries | 123.3 | 11.2 |
| Natural gas | 90.1 | 8.2 |
| Coal | 88.7 | 8.1 |
| **Total** | **1,426.4** | **129.7** |

*Source:* World Bank estimates.

to rise by 15% a year in real terms in the next 10 years, the World Bank estimates. There is a need, the bank says, for a greater effort to mobilise energy financing from all possible sources — official and commercial financing, debt and equity.

The World Bank expresses particular concern for the foreign-financing requirements of low-income countries (such as Nepal, Bangladesh, Laos, Mozambique, Cambodia and Chad) which comprise some 16% of the total for all LDCs. This group garnered only 9% of all publicly guaranteed external credits for energy during 1975-80 and this share may even go down in coming years, with the flow of non-guaranteed capital and direct investment going mainly to more creditworthy middle-income countries.

For both low-income and middle-income LDCs, the World Bank suggests a shift from electric-power generation to domestic petroleum energy-resources development in using foreign capital. Petroleum projects have become more expensive in recent years and more than half the LDCs' foreign-exchange needs for 1982-92 energy projects — or US$42 billion a year — will be in the petroleum sector.

Financing for power investments (espe-


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| 30 x 25 000 DM = | 750 000 DM |
| 364 x 10 000 DM = | 3 640 000 DM |
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cially in nuclear facilities) tends to be easier to acquire because credit agencies are attracted by the equipment exports resulting from such projects. But the financing of the local costs, which invariably require politically unpalatable tariff increases, remain a principal constraint.

In the oil and gas sector, which needs investments of US$556 billion over the next decade, coordinated efforts "by all the important actors" are proposed:

- International oil companies need to expand their efforts and to broaden their scope of operations into smaller and newer producing countries.
- Governments will need to supplement these efforts in areas where private-sector activity alone is likely to be too slow or inadequate, notably in projects oriented to meeting domestic consumption requirements, particularly in gas exploration and development.
- Official and commercial financing agencies will need to expand their support of the efforts by both international and national oil companies.

With local counterpart financing comprising the other half of the projected energy-investment requirements, LDCs are once more faced with the increasingly difficult task of mobilising domestic resources. One major problem is the low level of domestic savings in many LDCs. Also, the energy sector in many LDCs, being dominated by public-sector companies, is beset by such problems as too little managerial autonomy, cumbersome procedures and uncompetitive salaries which limit abilities to mobilise domestic resources for investment.

Finances for most power companies have deteriorated severely in recent years as sharp increases in fuel and borrowing costs have not been matched by increases in tariffs. Power tariffs in the 1960s and 1970s fully covered costs with little difficulty, even with external borrowings comprising up to 50-70% of investment costs. Investments now being planned have longer gestation periods and much higher costs, requiring loans with longer maturities than are generally available.

Many national power companies, the bank says, now need to raise tariffs by 60-80% to regain their long-term financial balance and to bring down their borrowing requirements to manageable levels. Governments are often loath to raise power rates in line with costs because of the political unpopularity of such a move and because of the mistaken notion that holding down utilities' tariffs necessarily leads to lower inflation.

But even with adequate tariff levels, power companies can also be saddled with unpaid bills as a result of poor collection systems and bad metering. Improvements in these areas, together with the upgrading of technical efficiencies to allow for full capacity utilisation and prevent losses in power transmission and distribution, are also necessary for the LDCs to achieve reasonable degrees of self-financing before turning to external borrowing to cover the local cost of investments. ■

# Managing the demand

## By gearing reduced energy use to economic output and seeking cheaper sources, poorer countries can save millions

The Philippines' gross domestic product grew an average 6.4% a year in 1970-80, according to World Bank estimates. But energy consumption for every US$1 million of GDP over the same period declined from 433 million tonnes of oil equivalent (toe) to 356.2 million toe. The Philippines is one of the few developing countries with an elaborate programme for energy production and consumption, and its efficiency performance highlights the World Bank's concept of energy-demand management.

Stated simply, demand management is aimed at two objectives: reducing the energy used per unit of output in the economy and inducing a shift from high-cost sources of energy towards cheaper ones, either domestic or imported.

Nonetheless, conservation in this sense involves more than merely turning down thermostats, reducing the amount of fuel used or switching to smaller cars. It involves a scientific approach that usually starts with an audit of energy use and at times requires retrofitting (installing an energy-saving device or process after a plant has begun operating) of industries.

But in many instances, the World Bank proposals call for nothing more than common sense — as in suggesting regular motor vehicle tune-ups and proper driving techniques to help the transport industry cut down on petrol consumption. Part of the total investment of nearly US$130 billion a year needed for energy programmes in less-developed countries (LDCs) during the decade to 1992 is for the promotion of energy-demand management.

The World Bank identifies four broad categories of measures towards demand management — energy-pricing policies; taxation and other fiscal incentives; direct capital allocation, and technical assistance, training programmes, regulations and promotional and educational programmes. Cited as the most important measure, an energy-pricing strategy is said to provide energy users with an incentive to eliminate energy waste and to choose fuels on the basis of their costs to the economy. Oil-importing LDCs have readily passed on to the final consumers the increases in the costs of oil. However, some oil-exporting LDCs still price products below opportunity cost, the World Bank notes.

Pricing also affects consumption by influencing the choice of energy-using technology. If energy prices are set below the economic cost of supply, the World Bank says, wrong priorities may be set for investments that will consume energy and technologies may be chosen whose use is not in the nation's economic interest.

In the development of indigenous resources such as oil, gas and coal, pricing also plays a vital role in generating sufficient resources for investment and ensuring the financial viability of projects. This strategy should help attract private investment in these efforts. However, decisions on energy pricing can be politically and socially difficult and, according to the World Bank, require a phased approach based on careful analysis. The main considerations for such studies would be the need to hold down inflation and to provide lower-income families with an affordable supply of energy.

The World Bank amplifies its proposals for demand management in the following sectors:

- **Industry:** Energy costs in large energy-intensive industries could be cut through a variety of measures, ranging from better housekeeping, energy management and improved monitoring and control systems to more capital-intensive investment in retrofitting existing equipment and using more energy-efficient processes. Based on energy-audit findings, patterns of energy use can be improved. In the case of small and medium-sized industries, potential savings can also be substantial though it may be difficult for governments to get this across to them owing to their large numbers. The technique is to facilitate the flow of information on energy-saving measures and processes.
- **Transport:** This sector accounts for 20-40% of petroleum consumption in developing countries. Opportunities for fuel substitution are limited so that efforts must be concentrated on devising schemes to increase the efficiency of energy use. Better driving habits and vehicle maintenance can result in fuel savings of 5-15%.
- **Households:** Considerable scope exists for improvements in home heating and cooling equipment, insulation and substitution by more economical sources such as coal, biogas and solar devices. Even redesigning stoves to maximise the use of heat produced (which can be as low as 5-10% when cooking over an open fire) can go a long way in the use of such materials as firewood.
- **Commercial and institutional buildings:** In existing buildings, such as those using airconditioning heavily, savings of up to 25% can be realised from better energy-management systems and minor retrofitting investment. Improved standards for the design of new buildings can reduce heating and cooling requirements by up to 50% of old ones.
- **Electric power:** In converting primary energy into electricity and distributing this to consumers, power systems in many countries "lose" up to 15% of the electricity generated owing to technical faults and unmetered consumption. Improving design standards can solve this problem which for many LDCs with low per capita incomes is crippling.

— JOSE GALANG

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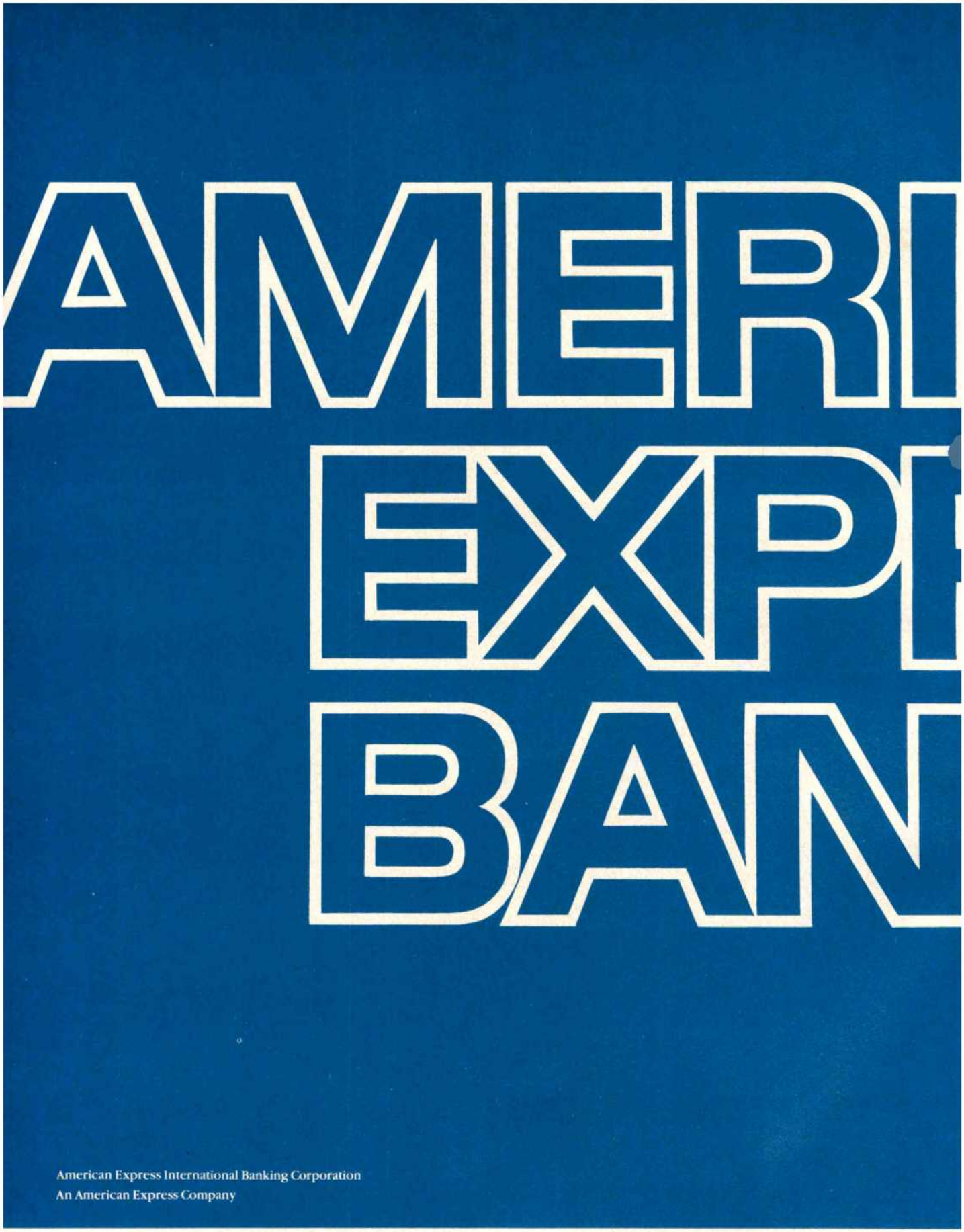


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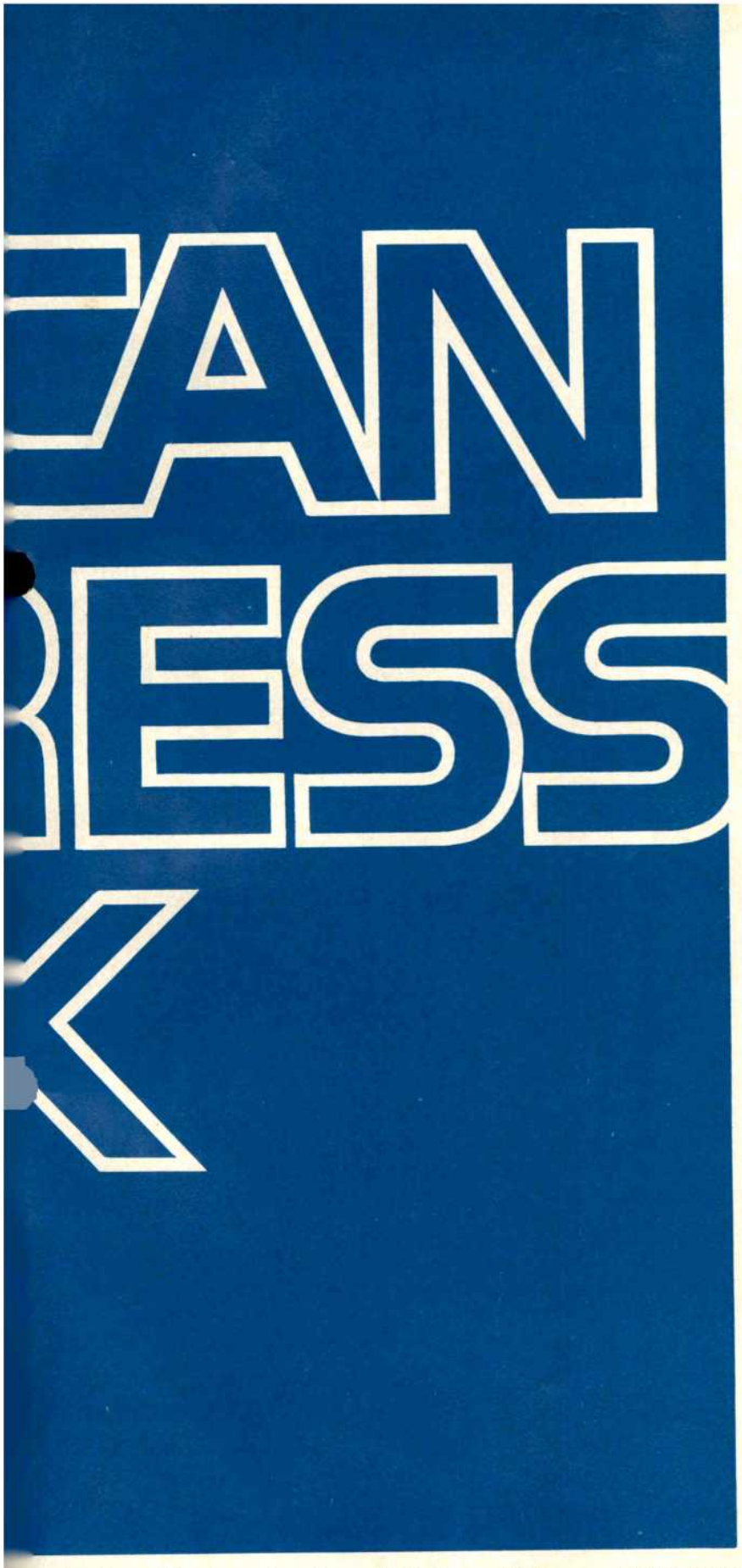


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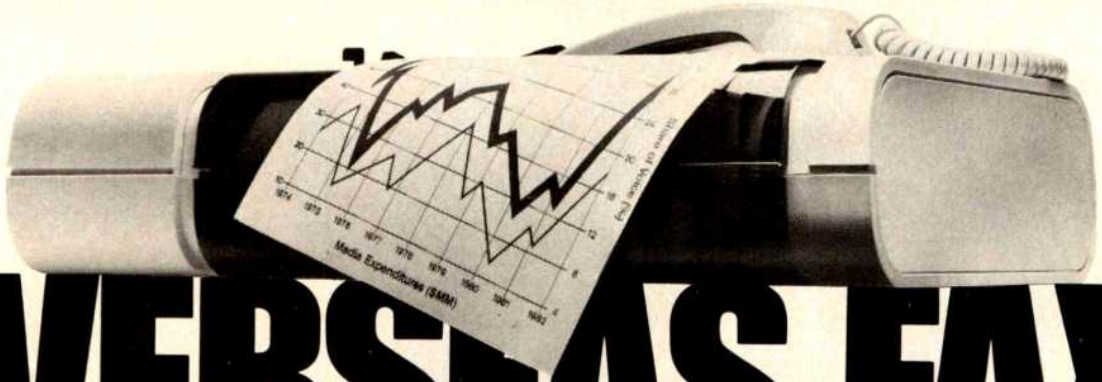

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# Address given by Dr. Hans Friderichs, Chairman of the Board of Managing Directors, at the Annual Shareholders' Meeting of Dresdner Bank AG

Total operating profit rose by nearly 85 per cent in 982. If, in addition to the good operating profit, loan oss provisions and extraordinary charges are taken nto consideration, then profit before taxes amounted o DM 335 million.

The Board of Managing Directors and the Supervisory Board have decided to allocate DM 60 million of total profits to the free reserves, thus increasing the total net worth of the Bank to DM 3,365 million.

The Bank's total assets rose by 5 per cent to DM 83.6 billion.

Dresdner Bank's subsidiaries performed as successfully as the parent company. The Group's total business volume increased by 6 per cent to DM 180 billion; all members of the Group showed increased operating profit.

Again in 1982, the banks provided business worldwide with financial assistance in its export drive. Thus, it was possible for industry to gain a foothold in new markets or hold its own, often in the face of stiff international competition. Without this cooperation between industry, exporters, and financial institutions many of the successes achieved in international trade would not have been possible.

We very much approve of the establishment of the Washington-based Institute of International Finance, which will provide support by developing additional sources of information for international lending. The impetus for the founding of the Institute – which is currently being organized – came from a number of internationally active banks including Dresdner Bank.

The degree to which the recent improvement in the business climate will prove to be lasting is a matter of great concern to us all. We are watching to see whether a self-generating recovery is on the horizon.

At this point, there is no guaranty that there will be a sustained recovery. The information available to us indicates that the outlook varies greatly from industry to industry. We cannot count on a strong growth in exports. We will only benefit marginally from the improved business climate in the United States; in other industrialized countries momentum is still lacking. And the potential export markets in the Third World and Eastern Europe could only be activated if adequate means of financing were to be made available.

The key to an international recovery lies in a return of confidence in economic, monetary, domestic, and foreign policies. Such confidence is quite obviously manifested by the recent trend of share prices and by the investors' more positive attitude toward shares in comparison to that in past years. For stock exchange listed corporations, the result is a significantly improved potential for obtaining new capital. This also has a positive impact on the light in which other companies are assessed and their potential for obtaining new capital, and thus has a significant effect on the economy as a whole.

Given this general situation, what then is the outlook for Dresdner Bank during the current year? So far, earnings have once again shown a considerable increase. In line with the positive general trend, especially in the stock market, profits from trading in our own security portfolio have also risen significantly.

However, it would be inappropriate to extrapolate performance for the full year by a simple process of multiplication of the favorable results achieved until now.

All in all, we are confident concerning the earnings potential of Dresdner Bank. Operating profit should at least equal, if not surpass, the high level achieved in 1982. It is obvious that no commitment can be made by the Board of Managing Directors at this point in time concerning the level of the dividend for 1983. However, in light of current projections, the Board's goal of realizing a higher dividend for 1983 appears realistic.



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MINING

# No time for rejoicing

## Philippine mineral companies, though underpinned by price increases for their products, remain cautious

*By Leo Gonzaga*

**Manila:** Despite this year's resurgence in prices of copper and gold, the Philippines' major mineral exports, most mines are continuing to concern themselves more with cutting costs than with boosting production. None of the mines closed down during the recession in 1981 has reopened; and while one old mine has been rehabilitated, another company has joined the ranks of the non-producers.

Of the so-called Big Six of the copper industry — Atlas Consolidated, Marinduque, Marcopper, Benguet, Philex and Lepanto — only one company is expanding capacity. As most of the mining firms remain inundated by debt, the general thrust has been towards cutting costs because debt service eats up most of the companies' funds that otherwise could be used to finance expansion. Most significantly, a number of mines are shifting from oil to cheaper coal as their prime energy source.

In US cents per lb, the price of copper during the past 12 months has climbed from the low 60s to the middle 70s and at one point even reached the low 80s. Gold has risen to the US$400-420 an oz range from around US$350. Silver has improved, too. The laggards are chrome, iron, zinc, lead, manganese, cobalt, molybdenum and nickel, but only the latter is in the big league as a foreign-exchange earner.

With the mining companies opting to cut costs rather than expand production to take advantage of improved prices, earnings from the industry's exports will have a minimal impact on the economy's balance-of-payments deficit. Moreover, even with the copper price now at 73 US cents a lb, it is still below the breakeven point for many mines.

In the case of the new mine of Batong Buhay Mines Inc. in Pasil (Kalinga-Apayao, northern Luzon), for example, the problem is related to law and order. According to Delfin Gonzales, executive vice-president of the Chamber of Mines of the Philippines, all the needed copper-ore extraction and processing facilities are in place. But there is no power, which is to come from the National Power Corp. (NPC), because of a long delay in setting up transmission lines. Violent skirmishes often occur among minority tribes living in the area between the mine and mill sites and the nearest NPC plant. Communist insurgents are also active there. Supposed to have been on stream in 1982, Batong Buhay is still a non-producer.

At another new mine, San Antonio (Marinduque, central Philippines), Marcopper Mining Corp. has stopped development work. It was originally intended as a new copper-ore source which would eventually replace the old Tapian mine nearby. Marcopper rebounded from a net loss of ₱48.4 million (US$4.4 million) in the first half of 1982 to a net income of ₱15.08 million in the same period this year. Apparently, however, it does not feel it is yet out of the wood.

Early this year, heavy debt charges forced the company to restructure a US$14.7 million loan obligation with Chase Manhattan Bank. It is understood that temporary shelving of the San Antonio project is one of the conditions of the restructuring.

Also early this year, the mine of Omico Mining Co. in Tuba (Benguet, northern Luzon) resumed producing gold bullion with silver by-products after several years of closure. However, the rehabilitation was undertaken not by Omico, which has remained inactive, but by Benguet Exploration Inc. (Benguet X), which owns and operates a mine in the same town whose complex ore body yields gold bullion and zinc and copper concentrates. Benguet X, which earned a net profit of ₱8 million in 1982 against ₱6 million in 1981 and is believed to have improved its earnings performance in the first half of 1983, has been expanding — though in the direction of non-metallic minerals. It now produces sand, gravel and pyrites from its own mining wastes. The company has also gone into industrial tree plantations (which grow trees for processing into various products or sale to wood processors).

Apart from Omico, five other mining companies have stopped producing. Like Omico, two of them have mines in Benguet. They are Western Minolco Corp. and Black Mountain Inc., both former copper producers. The latter stopped production only early this year. Another company with a closed copper mine is Hercules Minerals Corp. whose property, called Bueno, is in Ilocos.

The other two inactive mines are those of Sabena Mining Corp. in Davao (Mindanao, southern Philippines) and Zambales Base Metals Inc. in Zamboanga (also in Mindanao). Sabena used to produce copper; Zambales, manganese. Three more copper mines have been closed: one in Barlo (Pangasinan, north-central Luzon) belonging to Acoje Mining Co., another in Bagacay (Samar, east-central Philippines) owned by Marinduque Mining and Industrial Corp. and the third in Santa Nino (northern Luzon) owned by Baguio Gold Mining Co.

Acoje, which produces metallurgical chromite ore in Santa Cruz (Zambales, west-central Luzon), reduced its net loss to ₱48.1 million in 1982 from ₱51.1 million in 1981. But just recently it sought protection from its creditors, who had threatened to seize the company's assets. Acoje's current obligations amount to ₱154.4 million against assets of ₱137.5 million.

In the case of Marinduque, its net loss widened to ₱783.1 million in this year's first quarter from ₱381.9 million in the same 1982 period. Marinduque produces nickel metal and sulphides with cobalt by-products in Nonoc (Surigao, Mindanao), copper concentrates with gold and silver by-products in Sipalay (Negros, central Philippines), and cement in Antipolo (Rizal, near Manila). Most of Marinduque's loss is due to interest payments: it owes various creditors some ₱10.5 billion, the bulk denominated in US dollars.

*Marcopper mine: not yet out of the wood.*

The government, which has the biggest loan exposure to the mining company, is trying to keep Marinduque afloat. Through its financial institutions, the government has shouldered the company's external debt-service burden this year. It is also converting into Marinduque equity a substantial portion of both direct loans to and royalty payments due from the mining firm. With that backstop, Marinduque has secured additional foreign loans which have enabled it to undertake a project to shift energy source from oil to coal. It expects to realise cost savings of about ₱550 million a year from this project.

A similar energy-saving project has been brought on stream by Atlas Consolidated Mining and Development Corp. which produces copper concentrates in Toledo (Cebu, central Philippines) and gold bullion in Aroroy (Masbate, also in the central Philippines). Cost savings plus

benefits from loss-carryover provisions of the corporate income-tax law and better metals prices helped Atlas move from a net loss of ₱257.5 million in the first half of 1982 to a net income of ₱94.2 million in the 1983 half. It has no plans, however, to expand capacity.

Likewise opting for no more than utilisation of existing capacity is Lepanto Consolidated Mining Co. which registered a net profit of ₱55.8 million in January-June in contrast to a net loss of ₱25 million in the corresponding year-earlier period. Lepanto produces copper concentrates in Mankayan (Baguio mining district of northern Luzon). Also shunning expansion, at least for the time being, is Benguet Corp. which produces gold bullion in its own mine also in Mankayan; copper concentrates in a mine owned by Dizon Copper Mines Inc. in San Marcelino (Zambales), and chromite ore in a mine owned by Consolidated Mines Inc. in Masinloc (Zambales). First-half net income of Benguet increased from ₱31.1 million in 1982 to ₱132.2 million this year.

Philex Mining Corp. is the only member of the top six mine operators which is planning expansion. It is boosting its copper-ore milling capacity in Tuba (Benguet) from 10,000 tons of ore a day to 37,000 tons, which is to be staggered over a four-year period. Philex doubled its net profit to ₱128.8 million for the first half of 1983 compared to ₱62 million in the same 1982 period. Apart from Benguet, Philex is the only consistent money-maker among the top six producers, but it has the benefit of drawing revenues from its non-mining affiliate companies which are in oil exploration, commercial banking and, starting slightly more than a year ago, tyre manufacturing.

The caution of the mining industry is reflected on the stockmarket. Except on occasions when arbitrage mining issues (those whose shares are traded both here and abroad) have risen, investors have treated mining shares as though their potential is less than encouraging. ■

COMMODITIES

# More for the pot

## India encourages tea exporters and seeks ways to boost overall production in the face of stagnation in several areas

*By Jayanta Sarkar*

**Calcutta:** In a bid to check further erosion of tea exports, the Indian Government has decided to extend more incentives to exporters. Merchant-exporters will get a refund of excise duty paid on tea they export. Up to now, only producer-exporters have enjoyed this incentive. In September 1981, the government announced a scheme whereby producer-exporters were allowed to reclaim the excise paid on export consignments. Excise duties ranged from 44 paise (4 US cents) per kg. to Rs 1.44 per kg. depending on the zone where the tea was produced. But merchant-exporters were given a maximum excise rebate of 44 paise per kg.

Yet merchant-exporters account for nearly 70% of the country's total tea exports. They have since 1981 been trying to make New Delhi reform its policy. On the government's part, one problem was that since these shippers mostly export blended tea, made up of supplies from different excise zones, it was difficult to ascertain the applicable excise rebate on a given consignment. A way out has now been found and the dual policy has been ended.

However, a cost saving of between 44 paise and Rs 1.44 per kg. may not help all that much in improving the competitiveness of Indian tea as the country has one of the highest costs of production in the world. The biggest problem for Indian exports is the high price that tea secures in the domestic market. During the past few months exports have remained extremely lean — the main reason being that most producers and traders have found it advantageous to sell their tea domestically.

Tea prices, after remaining subdued since the boom of late 1977–early 1978, have taken a sharp upward swing in the past few months. Sales at the Calcutta auction at the end of June were fetching anything from Rs 9-10 more per kg. compared to a year ago. Foreign sales cannot match this performance.

Most observers, however, feel Indian prices cannot stay this high for long. But rather than any rapid decline, most expect prices to stabilise at a slightly lower level. Against the prevailing average leaf-tea price of Rs 26-30 per kg., there could be a levelling off at around Rs 22-25.

As far as exports are concerned, the solution is obvious — but is proving difficult to bring about. Tea production has to be raised so that a sizable export surplus is retained after fully meeting domestic demand. Selling at home is a soft option for the industry and there is a natural tendency to go for it, though that does not serve the nation well. To date, production has been increasing very slowly. Between 1977, when 556 million kgs were produced, and 1982 — 565 million kgs — the rise was only 1.6%. Part of the explanation was poor weather, but this was no excuse.

While the new emphasis on exports has been welcomed, tea circles feel New Delhi has not yet responded to the challenge of raising production. Many of the north Indian tea bushes, spread over Assam and West Bengal states and yielding nearly four-fifths of the total crop, have grown

AGRICULTURE

# A crisis on the hoof

## Mongolian officials demand measures to reduce an alarming increase in livestock deaths — blamed largely on neglect

*By Alan Sanders*

**A special meeting of the Mongolian People's Revolutionary Party Central Committee has been held to discuss the animal-husbandry situation, over which there is serious concern, according to President Yumjaagiyn Tsedenbal. Losses of adult stock have been 130% higher this year than in 1982, and losses of new-born animals 240% higher.**

**As a result, the total number of surviving young stock this summer has reached only 8.1 million, compared with 9.4 million in 1982. Tsedenbal has blamed the situation on the irresponsibility and disorganisation of local administrators and herdsmen.**

**First Vice-Premier Tumenbayaryn Ragchaa reported to the meeting that since the year-end livestock census, Ovorhangay province had lost about 200,000 head; losses in six other provinces ranged from 73,600-86,300 each. Five provinces lost 15-27% of their newborn animals this spring.**

**In 1982, Ragchaa said, Mongolia had 22.2% fewer camels and 11.4% fewer horses than in 1961. The last-announced total number of livestock in Mongolia (in 1981) was 24.26 million of which some 18.7 million were sheep and goats. In recent years, efforts have been concentrated on building up dairy herds.**

**However, Ragchaa pointed out that many provinces had not been procuring sufficient fodder, and 7-11% of wells in the countryside were unusable. Tsedenbal demanded that each province, state farm and herding collective should be allocated an absolute minimum number of head of livestock below which it must not fall between now and the year-end census.**

**"We must adopt a self-critical approach to the current state of affairs in animal husbandry and take concrete and active measures to bring about a decisive reduction in livestock losses, mobilise reserves to increase livestock numbers and eliminate the serious shortcomings and neglect in our work," he said.**

old. There are schemes for giving soft-term loans for rejuvenation, replanting and acreage extension, but these have not been significant to date.

The latest and most sweeping plan is for a Rs 430 million revamping of the famed Darjeeling tea industry. Its production has stagnated at about 12-14 million kgs. (About 30 million kgs more is sold every year worldwide as Darjeeling tea, but is not the genuine article.) Still another idea being considered in New Delhi is to approach the World Bank for substantial financial assistance. Similar bank funding in other countries has been the inspiration behind the plan. But any such financing might require a structural change in the Indian tea industry for which neither New Delhi nor the industry seem to be prepared.

The tea companies have long been clamouring for a cut in the tax rate, meanwhile. The marginal tax incidence on tea has been higher than in any other industry and that is because tea is taxed both as an agricultural and an industrial activity. Only tax relief, it has been suggested, could enable the industry to garner the larger margins required for substantial reinvestment in development programmes. Investment in such programmes will have to rise to something like Rs 1 billion a year (against approximately Rs 300-400 million at present) if India is to avert a tea famine by the turn of the century, a recent industry study warned.

An additional element of uncertainty has been introduced by changes in the industry's corporate ownership. The process started with the Foreign Exchange Regulation Act which came into force in January 1974. This brought down foreign shareholdings to a maximum of 74%. But the vicissitudes that have marked the industry since then have induced most of the foreigners to divest themselves of management of the 100-odd tea companies which have passed on to Indian hands. F

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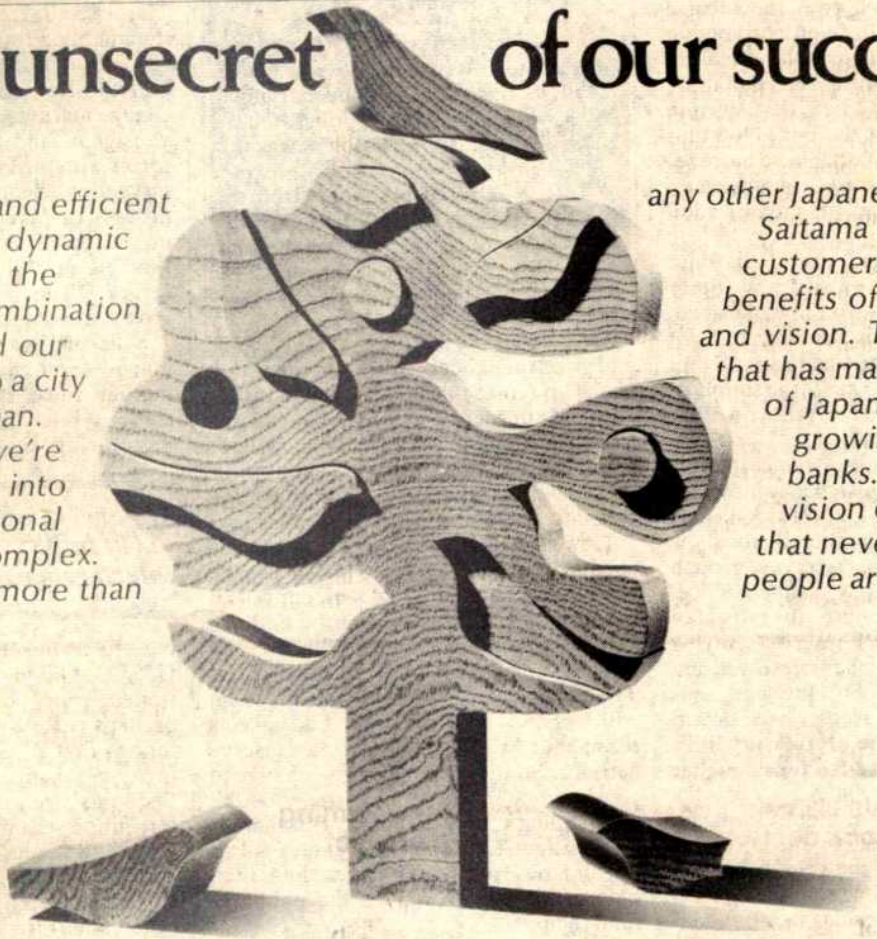

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Robert Haney Scott

# Foreign-exchange markets get Fed up

Asian traders exposed to foreign-exchange risk have spent sleepless nights recently worrying about the US dollar. A gang of central banks around the world is attacking it. Of all things, even the dollar's "mother" bank — the Federal Reserve Board — joined the gang to attack its own offspring.

The rallying cry is: "Intervene!" But intervention quite simply will not work. The threat of intervention may frighten traders; actual intervention may disturb the prices of currencies temporarily. But, as a policy, intervention is worthless. It has no lasting effect and its very mechanics serve to undermine even its temporary effects.

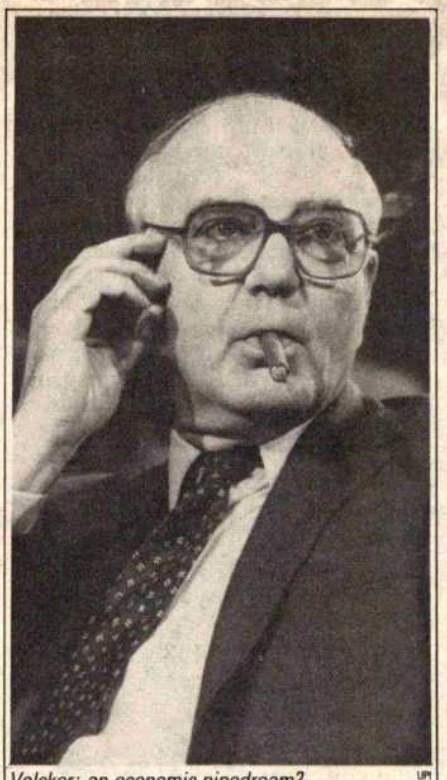
The intervention mechanism works in general like this: when the Fed buys something — anything — it gives the seller a cheque drawn on itself. In order to obtain his money the seller deposits the cheque in a bank. The bank, in turn, seeing that the cheque is drawn on the Fed, deposits it in the bank's account at the Fed. Now this bank, and banks in general, have more reserves than before. Based on these reserves, banks can lend (or create) additional money.

This applies when the Fed buys Deutschemarks or yen or any other foreign currency. Consequently, the act of intervention — that is, the purchase of foreign currency by the Fed in an attempt to drive up its value — causes the supply of dollars to expand if the Fed takes no other action.

But the Fed wants stable money growth. To achieve this goal it must not allow reserves to expand. Paul Volcker, chairman of the Fed, says he will not allow intervention to cause reserves growth greater than that already planned. Thus, the Fed will act to "sterilise" the impact of its intervention on bank reserves. Buying foreign currency raises bank reserves and selling lowers them. So, the Fed sells treasury bills to pull reserves back down. The increased supply of treasury bills pushes up interest rates to levels higher than they otherwise would be.

This is the mechanism. Let us look at a specific case — for example, the US dollar and the yen. The Fed finds the dollar rising and the yen falling on foreign-exchange markets and decides to intervene. It buys US$100 million worth of yen from traders (usually through confidential arrangements with selected banks in order to cover up the extent of its transactions),

**Robert Haney Scott is a visiting professor at the Department of Accounting and Finance, the Chinese University of Hongkong. His permanent post is at the University of Washington in Seattle.**



*Volcker: an economic pipedream?* UPI

and gives the seller of yen a cheque in dollars. This represents increased demand for yen and an increased supply of dollars. Yen values should rise and the dollar's value should fall. This is the undermine-the-dollar act that intervention is supposed to accomplish.

However, the seller of yen now has a cheque drawn on the Fed. He deposits the cheque in a bank and the bank deposits it at the Fed. Bank reserves at the Fed rise by US$100 million. To offset this rise, the Fed sells an equal amount of treasury bills. The buyer of treasury bills pays for them with a cheque on a bank. The Fed collects the cheque by reducing the bank's reserve account. So there should be no change in reserves nor in the money supply — the outstanding supply of dollars. But there is one change. The supply of treasury bills is up, and these must offer higher yields than before in order to induce the public to hold them.

Meanwhile, what happens in Japan? The mechanics of intervention tell us that the entire process is reversed. Remember that the Fed bought yen. The seller gave the Fed a cheque drawn on a Japanese bank for US$100 million worth of yen. The Fed sends this cheque to the Bank of Japan (BoJ), the central bank, where it maintains an account.

The BoJ sees that the cheque is drawn on a local bank and reduces that bank's reserves by US$100 million worth of yen. This decline in reserves, if not offset, will cause the money supply in Japan to fall. To keep the money supply in Japan constant, the BoJ must offset the drain on reserves. It must take action to expand their availability. Increased reserve availability causes downward pressure on interest rates in Japan.

The upward pressure on United States interest rates is mirrored by the downward pressure on rates in Japan. This makes US securities even more attractive, and Japanese securities even less attractive, than they were before the process began. Because of this increased interest-rate differential, investors will demand more dollars and less yen, causing the dollar to appreciate on the foreign-exchange market. This, of course, is precisely the opposite of the intended result. The impact of the intervention process is undone.

If the BoJ also enters the foreign-exchange market to support the value of the yen against the dollar — that is, if it joins forces with the Fed — the mechanics of intervention clearly show that the entire process is merely accentuated. The BoJ must supply even more bank reserves, and the Fed must absorb even more bank reserves. The interest-rate differential grows even larger.

Volcker argues that sale of US$100 million is small change in the treasury bill market since some US$550 billion of treasury bills is outstanding. As a result, he contends, these sales have no perceptible effect on interest rates. But at least US$500 billion in foreign exchange is traded every day in New York and perhaps twice this amount in London. It follows that a US$100 million purchase of foreign exchange is also small change relative to its vast market. And so, minor intervention accomplishes little and major intervention sets off opposing forces.

***'Intervention is surely an exercise in futility. It is unwarranted interference in the market-place.'***

The conclusion is that intervention is surely an exercise in futility. It is unwarranted interference in the market-place. It causes disruption to no lasting purpose.

In the examples above, the money supplies created by the various central banks were unchanged. If the gang of central bankers really wants to alter the value of the dollar it should disband. Its members should return home and look after their own respective currency supplies. The dollar's value will only fall when its supply expands relative to the supplies of other currencies. Such changes in supplies do not require intervention. Intervention is merely a disruptive ruse.

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## 1983 Interim Results

- The unaudited net profit of the Group for the six months ended 30th June, 1983, after taxation and minority interests, amounted to HK$66,884,913, a decrease of 10.56 per cent on the figure of HK$74,785,820 for the corresponding period of 1982.
- The Directors have declared an interim dividend of 30 cents per share (1982: 30 cents per share). Dividend warrants will be despatched on 23rd September, 1983 to persons who on 15th September, 1983 are registered shareholders of the Company. The transfer books of the Company will be closed from the 2nd September, 1983 to the 15th September, 1983, both days inclusive.
- Group profit for the first half of 1983, compared with the corresponding period of 1982, was primarily affected by the loss of interest earnings due to the full utilization of the Company's cash resources towards development expenditure during 1982. The loss of 120 guestrooms in the new wing of the Peninsula Hotel inevitably reduced business, although this was less severe than expected. The Hotels and Catering Division performed satisfactorily in the face of increased competition both in Hong Kong and regionally.
- Full occupancy of commercial properties at satisfactory rentals has been maintained, and income from the Properties Division has improved, due in particular to higher income obtained from domestic tenancies no longer subject to rent control. Income from St. John's Building will commence during the second half of the year.
- In view of the adverse market conditions, your Directors view the year 1983 as a whole with caution. In the absence of unforeseen circumstances, it is hoped that a final dividend of 70 cents per share can be maintained, although this will be dependent upon the actual circumstances prevailing.

Hong Kong, August 11, 1983

THE HONGKONG AND SHANGHAI HOTELS, LTD.

Incorporating the Peninsula Group

Hotel Ownership and Management. Catering. Real Estate

ST. GEORGE'S BUILDING, HONG KONG

# Recovery is confirmed

**Seoul:** The South Korean economy, hit by four years of recession since the second world oil shock in 1979, seems at last to be making a strong turnaround, convincing official and private economists that recovery here is now beyond doubt.

Inflation, which had for decades troubled the nation and eroded its growth, has now been brought largely under control. The consumer price index rose just 2% in the first half of this year, a far cry from the 5% rate for the whole of 1982, 14% in 1981 and a striking 33% in 1980.

Strong domestic demand is leading the process of recovery, stimulated by the 1982 government reflation package which featured a steep interest-rate cut and a corporate-tax reduction. This policy encouraged many firms to strengthen their financial structures and boost investment in anticipation of a gradual recovery in the world economy this year.

Spurred by an unusually strong resurgence in housing construction and other property-market activity, gross national product in the first quarter of this year rose 9.3% in real terms.

Figures released by the central bank on August 18 for the second quarter showed a similarly striking improvement, with GNP up another 9.8% in real terms. As in the first quarter, the economy was paced by a brisk construction sector — and a new surge in manufacturing. Construction grew 21% while manufacturing was up 10.3%. The first-half GNP gain was thus 9.6%. It seems clear this year's growth target of 7% or more will be achieved.

Indicating the construction boom, building permits for residential, commercial and industrial projects reached an aggregate of 19 million sq. ms in the first half, up more than 50% over the year-earlier period. Domestic demand for capital goods, including machinery, rose 43.8%, though export demand for capital goods fell 17%.

During the same period, industrial production rose nearly 14% compared with less than 5% a year earlier. The shipments index soared more than 15% compared to a mere 3.4% a year earlier. Inventories fell 1.2% compared with the dangerous increase of 21.3% in the first half of 1982.

Under strong pressure from the International Monetary Fund, the governme is committed to a tight money policy whic is aimed at absorbing excess liquidi caused by last year's release of larg amounts of funds for small- and mediun sized industries. The emergency fundi was triggered by the collapse of the unde ground kerb money market (REVIEW May 21, '82). The initial government ai of keeping this year's broad money suppl increase to 15% has been further scale down to 13% and figures suggest the cr dit policy is being successfully im plemented. M2 growth was 17% in Jul compared to 31% in July 1982; the aggr gate M2 increase for the first six month stood at 21.2% compared to 29.1% in th first half of 1982.

Thus the government's overall stabilis tion policy, based on reduced inflatio low interest rates an small foreign-ex change rate fluctua tions, seems to b working. During th first seven months c this year, the won de clined 5% against th US dollar. But th strong dollar, backe by a high Unite States prime rate, ha increased Sout Korea's financial bur

**BALANCE OF PAYMENTS**

| *(US$ million)* | June 1982 | First half 1982 | June 1983 | First half 1983 |
|---|---|---|---|---|
| Current-account deficit | 371 | 722 | 450 | 1,320 |
| Trade deficit | 285 | 826 | 340 | 1,184 |
| Invisible balance | −86 | 104 | −110 | −136 |
| Overseas construction receipts | 195 | 1,303 | 134 | 928 |
| Interest on foreign loans | 407 | 1,893 | 373 | 1,692 |
| Long-term capital receipts | 79 | 275 | −161 | 429 |
| Short-term capital receipts | −13 | 59 | 100 | 382 |
| Overall balance | −252 | −1,240 | −424 | −1,126 |
| Foreign-exchange reserves | 6,350 | n.a. | 6,006 | n.a. |

*Source:* Economic Planning Board

**SALARIES**

# No more pith-helmet pay

## Papua New Guinea introduces a single structure to iron out inconsistencies which have been described as a colonial relic

***By Rowan Callick***

**Port Moresby:** The Papua New Guinea Government is making a bold bid to solve one of the country's most unsettling issues: the great gap between expatriate and national salaries. Prime Minister Michael Somare first entered political life in a campaign in the mid-1960s for equal pay. His solution now is a little more sophisticated. A single salary structure will replace the dual-wage policy described by Public Service Minister Tony Siaguru as "a colonial relic." The government will then be free to pay an allowance, at the market rate, to foreign experts it needs.

Formerly there were three salary levels for expatriate public servants: Australians were paid the most; then New Zealanders and Britons; then the rest. Now there is a single overseas scale. But this causes two basic problems: first, resentment from Papua New Guineans; second, it means Papua New Guinea pays well over the top for some of its foreign expertise, but at the same time is prevented from paying the higher rate needed to attract rarer skills.

The Public Employees Association (PEA) embarked on a poorly supported strike earlier this year over the issue of dual-pay systems. The demand for wage equality with highly paid expatriates was potentially disastrous, but had started to lead to some public-service chiefs encouraging the rapid promotion of national staff to boost their incomes.

Rates of pay in Papua New Guinea already are much higher than in other developing countries in the region which are competing for the same capital investment. A clerk, for instance, may be paid more than US$6,000 a year. But overall, the spread is not as great. This has meant the government losing professional expertise at the upper end.

So part of the new wage package announced by Siaguru in mid-July is the im plementation of a job-evaluation exercis that will add six new levels to the top en of the present 14-level wage system. Som positions — doctors, for instance — wil be re-evaluated upwards; some, down About 10,700 public servants, 21.4% o the total, will receive rises as a result.

The job-evaluation studies conducte for the government have shown that ad ministrative and clerical workers are over paid. So Siaguru aims to freeze the wage of these 13,550 workers for up to five years. He also wants the PEA to accep annual consumer price index-based wag adjustments — as the private sector has now agreed to accept — rather than the present six-monthly adjustments.

Siaguru already has succeeded in persuading the PEA to accept 3,000 redundancies over the past year. There are signs now, though, that the union may react against the new package, though it astutely answers some longstanding union complaints while making government gains.

The other question mark hanging over the proposal is the cost. The government publicly estimates it will be an extra Kina 14.8 million (US$17.4 million) in the first year after implementation in March 1984. Other estimates range much higher.

den in repayments of loan principal and interest. The recent upturn in the cost of money in the US has added at least US$200 million to this burden.

With foreign debt at the end of 1983 expected to reach US$40 billion, reducing overseas borrowings has become the principal issue for newly appointed Deputy Premier and Economic Planning Minister Suh Suk Joon. Revision of the current five-year plan (REVIEW, Aug. 4) is aimed partly at readjusting targets to minimise borrowing and maximise domestic savings. The government wants to raise the savings ratio from 22% at present to 30% in 1986, the last year of the current plan.

As a result, strengthening the international balance of payments is the key policy; officials are optimistic they can limit this year's current-account deficit to about US$2 billion, compared with US$2.5 billion in 1982. During the first half of this year the deficit rose to US$1.32 billion from US$722 million in the same 1982 period. The increase no doubt was caused by shrinking receipts from overseas construction contracts and a larger import bill.

But with merchandise exports — the chief engine of the South Korean economy — gaining momentum, no one here seems seriously concerned about the country's ability to service its debts. The debt-service ratio, at 15% of foreign-exchange earnings, is thought reasonable.

However, the pattern of export growth remains at best irregular and even potentially worrisome. During the first seven months, exports reached US$13 billion, up almost 9% (compared to a 2% rise in the same 1982 period). It is hoped this rate will be maintained, bringing the newly adjusted export target of US$23.5 billion by year's end within reach.

But the problem is that a large chunk of exports is claimed by just two items, ships and electronics, rather than the more traditional products such as textiles, steel and plywood. In June alone ship exports surged 167%, bringing the total for the first half to US$1.8 billion, up US$650 million over a year earlier.

The gradual recovery in the world economy is expected to breathe new life into South Korea's light-industrial sector. Figures for August indicate that production of textiles, footwear and other traditional items is beginning to pick up. This trend, helped by a steady expansion in domestic demand, has led to increased utilisation of the country's manufacturing capacity, with plants operating at a high average of 82%, in turn helping to reduce unemployment. The jobless rate, as of July, stood at 3.3%, the lowest since 1981.

— SHIM JAE HOON


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|---|---|---|---|---|---|
| A | "Clark Michigan" 125B Loader | 437-01 | 439-A106-ASC | 20215168 | 5,655 Hrs |
| B | "Clark Michigan" 125B Loader | 437-02 | 439-A111-ASC | 37155 | 5,232 Hrs |
| C | "O & K" RH75 Hydraulic Excavator/Face Shovel | 432-01 | 70023 | CR30191 & 10876628 | 16,041 Hrs |
| D | "O & K" RH75 Hydraulic Excavator/Face Shovel | 432-02 | 70042 | CR30180 & 23146719 | 13,262 Hrs |
| E | "O & K" RH75 Hydraulic Excavator/Face Shovel | 432-03 | 70063 | CR30234 & 10510848 | 11,635 Hrs |
| F | "O & K" RH75 Hydraulic Excavator/Face Shovel | 432-04 | 70079 | 10535005 & 23167900 | 9,870 Hrs |

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**TENDER CONDITIONS:** May be obtained by contacting Mr. H. Haldane, or in his absence, Mr. N. Cook at the address below, or by phoning Brisbane (07) 226 1711 or Telex AA40417.

**All correspondence should be addressed to:**
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**P.O. Box 248, NORTH QUAY, QLD 4000**
**(50 Ann Street, Brisbane)**
**ATTN: Mr. H. Haldane**

CE 720

PHOTOS XINHUA

*The Hongkong-owned World Shanghai after launching: hopes of more ship exports.*

**FINANCE**

# A test of the water

**The Bank of China tries out a new export-credit scheme to help boost exports of ships and marine equipment**

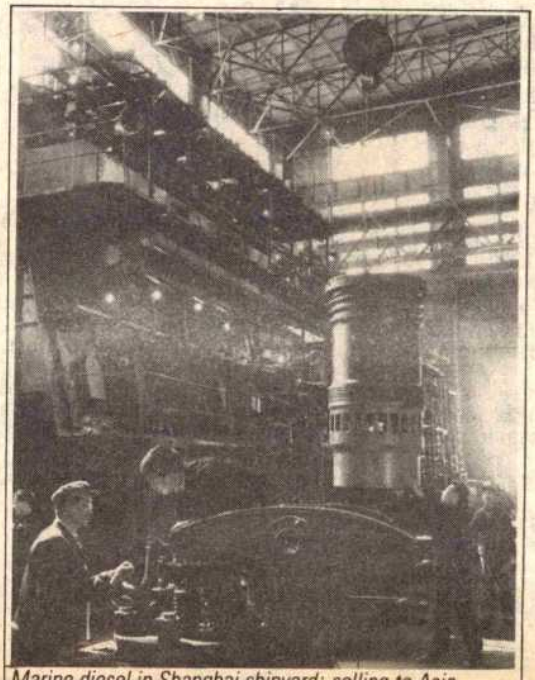
***By Teresa Ma***

**Shanghai:** In an unprecedented move, the Bank of China (BoC) is to provide a buyer's export credit, now being negotiated between officials of its Shanghai branch and the Express Shipping Management Co. of Hongkong. The credit is to facilitate a US$20 million order for four ships of less than 10,000 dwt each, placed with the Zhonghua Shipyard in Shanghai. BoC Shanghai is offering a credit, which would cover 75-85% of the shipbuilding contract. The loan is to be based in US dollars and is repayable every six months at 8.5% fixed annual interest over eight years. It is understood that the Nanyang Commercial Bank, a Hongkong-based sister bank of the BoC, will also participate in the lending.

"We're putting the new credit scheme on trial service," said Ma Zuhui, manager of the credit department of BoC Shanghai. The BoC buyer's export credit is the latest move to step up the country's export drive for the shipbuilding and marine-equipment industries. Until recently, Chinese shipbuilding corporations operated on a cash-on-delivery basis for foreign orders.

In August 1982, the Chinese state shipbuilding industry for the first time offered an export credit for an overseas order: Noriental Offshore of the Thoresen International Group of Norway commissioned two 6,000-hp. UT714 tri-purpose boats to be built by Shanghai's Jiangnan Shipyard.

Under the US$10 million contract, equipment and technology supplied by Thoresen will pay for a third of the building costs. Of the remaining two-thirds, 80% is covered by a six- to nine-year credit at about 9% annual interest. Unlike the new buyer's export credit facility, Thoresen's credit was provided by the Shanghai Shipbuilding Industry Corp. (SSIC) and not directly by the BoC. SSIC supervises all shipyards in Shanghai.



*Marine diesel in Shanghai shipyard: selling to Asia.*

The Chinese Government already allows supplier's credits and deferred payment for the export of ships and complete sets of machinery. Foreign orders for turnkey plants and ships exceeding US$500,000 may qualify for such credits — usually set at about 9% annual interest over a period of four to eight years, Ma said.

Under the deferred-payment scheme, the foreign buyer has only to come up with a 20% downpayment, with the rest to be paid in 12 instalments over six years. Sales of machinery go mainly to Southeast Asian countries while ships are usually commissioned by owners in the United States, Singapore, Hongkong and Western Europe.

In March, Norway's Parley Augustsson Corp. signed a US$85 million contract with China State Shipbuilding Corp. for six roll-on, roll-off vessels. The first of the 7,000-dwt vessels is to be delivered this month. Again, part of the financing was supplied by the builders.

Successful conclusion of negotiations for the buyer's export credit would boost the Shanghai shipbuilding industry, which accounts for more than half the national total export tonnage. Shanghai built 51 ships for export totalling 550,000 dwt during the two years beginning 1980 when China first set its feet in the international shipbuilding market.

With nine shipyards and four marine-equipment factories, Shanghai's shipbuilding capacity equals 40% of the national total, an SSIC official indicated in a recent Xinhua newsagency report. During 1983-85, Shanghai is to produce more than 300,000 dwt for export, while targeted national total exports are 1 million dwt. In addition, Shanghai has been assigned to build 40% of the 2.5 million dwt scheduled for domestic use.

The credit facility, now being tested in Hongkong — which is China's third largest ship-export market — may be extended to other foreign shipowners.

The BoC Shanghai branch has a large amount of foreign reserves from deposits made by Shanghai foreign-trade corporations and has been remitting foreign funds for use by the Peking headquarters of the BoC, Ma said. However, he sees more foreign spending over the next two years as Shanghai enterprises import more technology and equipment for upgrading industrial plants.

Loans to Chinese enterprises for technical transformation carry a very low 2.52% annual interest and may be repaid over a three-year period. Some 400-500 industrial enterprises have applied for the loan facility, but only a few have actually received credits. ◼

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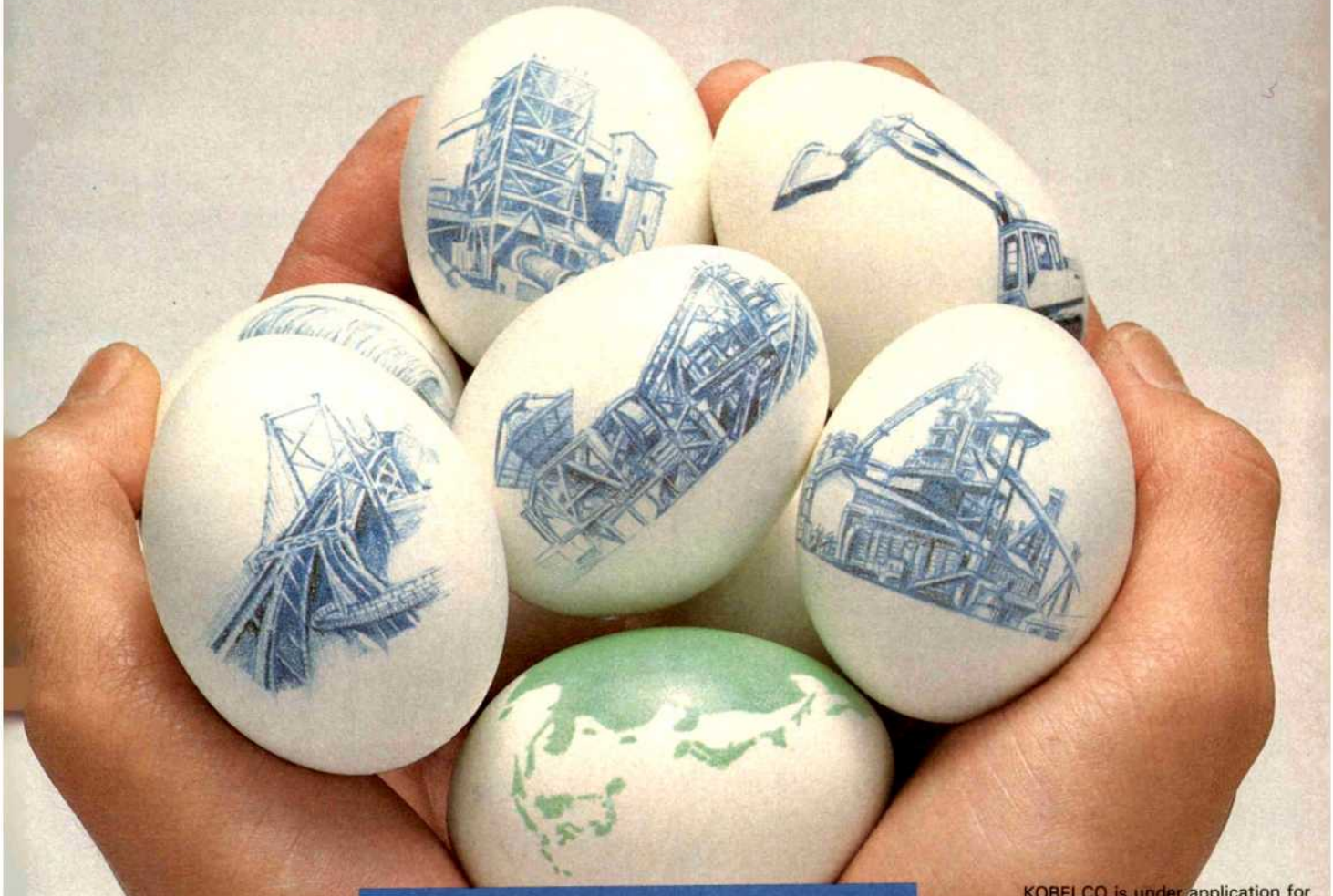

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(Source: Project Parade 81 conducted by INRA.) Data from Asian Profiles III available on request.

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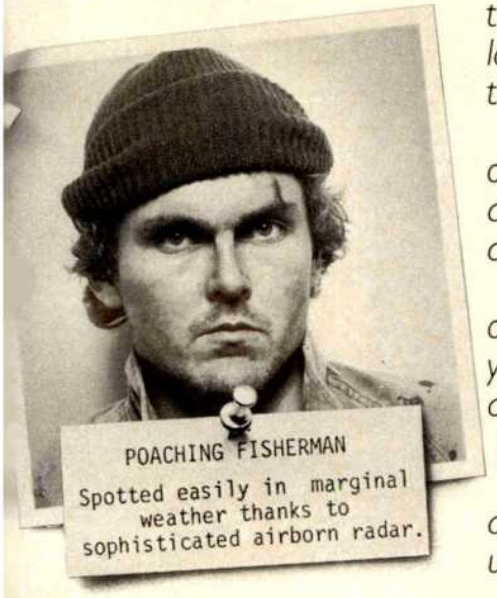


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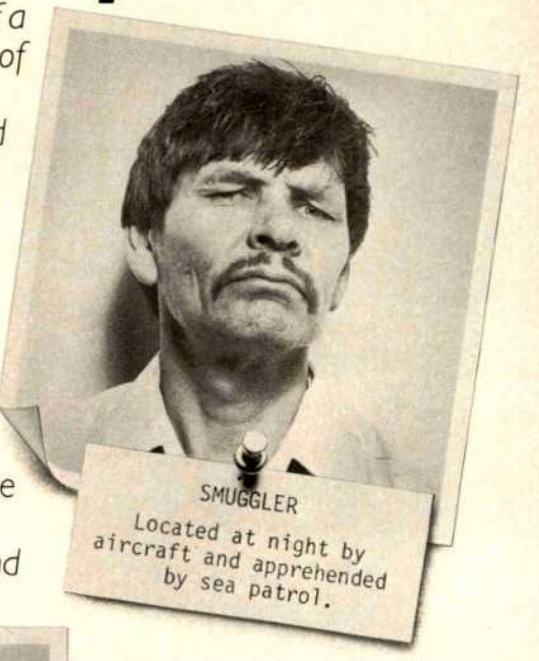


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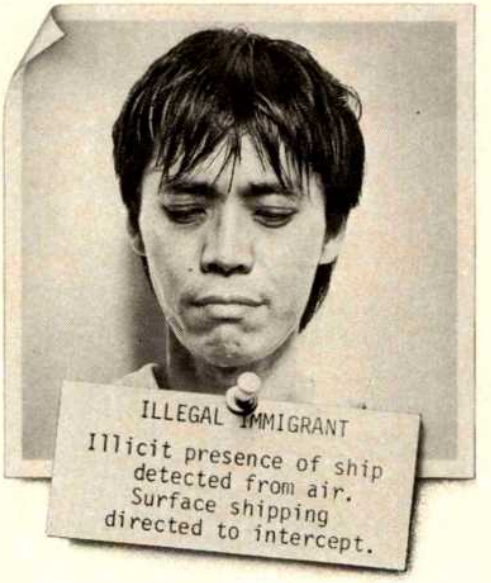


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Anthony Rowley

# Corporate quadrille, or excuse me?

• SHAREHOLDERS in Sun Hung Kai Securities and Sun Hung Kai Bank may be excused for wondering why it is such a good thing for their two companies to be merged now under one new holding company (Sun Hung Kai & Co.), when less than four years ago equally convincing (or unconvincing) reasons were advanced for splitting the two sides of the business. They were to have a chance to ask why at shareholders' meetings of both companies on August 26.

The offer document detailing the formal scheme of arrangement by which the merger is to be effected hardly makes a case for the move — quite the reverse, in fact for Bank shareholders who immediately stand to lose more than they gain. But reading between the lines, Shroff detects the hidden hand of a disgruntled Merrill Lynch wishing to salvage its ill-timed investment in the Sun Hung Kai group through a reshuffle of interests.

When Sun Hung Kai Finance was spun off from Securities in 1979 as a separately quoted entity it was argued that "while the business and interests of the two groups are complementary they are essentially different in character." In fact, the finance company had suffered a run on deposits a year earlier when it was a subsidiary of Securities — no doubt a more powerful motive for the separation. By March 1982, Sun Hung Kai Finance had not only put past problems behind it but had been granted a full banking licence, and was renamed Sun Hung Kai Bank.

A couple of months later, when the Hongkong stockmarket was still flying high (and Securities with it), along came Merrill Lynch to acquire a 25% stake in Securities and 15% in Bank, joining the French group Paribas which now has a 24.7% stake in Bank and 9.4% in Securities. By the end of 1982 when the Hongkong market had plummeted, and Securities' earnings with it, some pretty bitchy things were being said on Wall Street about Merrill's by then greatly devalued investment in both Securities and Bank. In contrast, Sun Hung Kai group chief Fung King-hey saw his own personal stake in Merrill Lynch soar on the back of the Wall Street boom.

Then, in March of this year, when Securities published its 1982 accounts showing a crash in pre-tax profits (and a huge after-tax loss when provisions were made for a fall in the value of investments in associated companies) Merrill had clearly decided that enough was enough. At this time it was announced that Bank and Securities would be brought back together, still as separate operating entities but under one holding company in which (the long-delayed offer document now reveals) Merrill and Paribas will each ultimately hold 20% and Fung himself 40%, with the rest in public hands.

As Bank shareholders are being asked to contribute 59.6% of the attributable net assets of the combined group and 54% of the attributable earnings, in return for just 51.3% of the enlarged equity, it is clear that Merrill — currently heavier on Securities than on Bank stock — is coming out best.

No doubt the merger makes sense for Merrill — and possibly for Fung (who owns 48.4% of Bank and 35.1% of Securities) as well as for Paribas. No doubt too they would prefer not to increase their holding in troubled Securities right now, but equally they will have been prepared to make concessions in order to retain Merrill as a partner. But it hardly makes sense for minority shareholders in Bank, who are being asked to accept a 13.9% decrease in attributable net assets and a 5.3% decrease in attributable earnings under the merger terms. By the same token, Securities' shareholders get a 20.6% and 5.5% boost under these respective headings.

In a letter to shareholders of Bank and Securities, Kleinwort Benson (HK) and Citicorp, respective financial advisers for this deal, acknowledge the dilution of benefits to Bank shareholders but argue that Securities has the "greater earnings potential" of the two. Maybe, but neither last year's performance by Securities nor the medium-term outlook for the Hongkong stockmarket offers much reassurance in that direction.

Securities' pre-tax profits plunged from HK$234 million (US$31.75 million) to HK$50 million between 1981 and 1982 on a less than 10% drop in turnover — illustrating how sensitive earnings are to market volume. After equity-accounting of associates, there was a HK$421 million turnaround below the line, to losses of HK$182 million, reflecting losses at property subsidiary Sun King Fung Development. Securities has now sold its 46.6% stake in Sun King Fung to Fung as part of the restructuring, and in return beefed up its stake (to 28.34%) in Television Broadcasts (TVB) which should at least spare Securities future horrors from the property-market collapse — something Merrill was no doubt anxious to get out of too. But that still left profits for the first half of 1983 (to June 30) some 80% down at HK$14.6 million on an equity-accounted basis.

It is odd, to say the least, to see the Securities board arguing (reasonably) on one page of the document that the merger will make Securities' earnings "less susceptible to the volatility of the broking business" while the independent advisers argue elsewhere in favour of Securities' better earnings potential. It may be true, as the document also argues, that there is something to be said for turning Securities and Bank into an American-style financial supermarket offering a range of money-management and investment services (though margin financing by Bank's or Securities' clients sounds like one of the more dubious benefits). But it is hard to see why all this cannot be achieved without a new corporate structure.

Neither Securities nor Bank is prepared at this stage to forecast profits for the current year and (rather worryingly) the independent advisers talk of economic problems in Hongkong likely to "depress profitability" at Bank. Moreover, Fung, Paribas and Merrill have jointly had to indemnify and guarantee Bank in the amount of HK$282 million, to avoid the need for provisions against loan principal in the current year.

Bank's earnings plunged from HK$71 million to HK$39 million in 1982, though only after (first-time) transfers to inner reserves. They fell again by 56% to HK$7.1 million in the first half of this year compared with the first half of 1982. All in all, minority shareholders of Bank and Securities would probably be best advised to press for a cash buy-out option while the big three shareholders sort out their own relationships, and both companies' problems. Sun Hung Kai & Co. could then come back to market eventually, once it has established the sound track record it is now promising on the basis of some untested assumptions.

• OVER at the Hongkong headquarters of Indonesian entrepreneur Liem Sioe Liong's First Pacific group, where things rarely stand still for long, Shroff gathers that plans are being laid for the acquisition of a licensed Hongkong bank — a small one, almost certainly, but one which no doubt would be very useful to the Liems in their ambitions to establish an Asia-Pacific banking nexus stretching from Hongkong to California — and probably beyond.

Trade finance, on which First Pacific concentrates, is the less glamorous end of banking but it is also the more profitable end now that the shine has gone off property finance and big syndicated loans. Shroff would also not be surprised to see First Pacific buying up more of World Wide House, from which it operates — and possibly renaming it First Pacific Centre?

PHOTOS: SOUTH CHINA MORNING POST

*Stranded crewmen; the Golden Builder in Hongkong: mystery of the missing agents.*

**SHIPPING**

# A cargo of nothing

**The Golden Builder returns to Hongkong after failing to pick up a consignment of aluminium that may never have existed**

***By George Lauriat***

**Hongkong:** The 19-year-old Golden Builder, a 3,351-grt Panamanian-registered cargo ship, left Hongkong in ballast on July 2 for Bangkok. The ship returned to Hongkong, cargoless, on August 5 after wandering about the South China Sea at the mercy of the wind, tides and cables from its Hongkong agents.

Upon arriving in Hongkong, the crew, which was owed HK$500,000 (US$67,500) in back wages, was surprised to discover that the Hongkong agent, Kin Wah Navigation Co., had disappeared and that the Japanese trading house Nichimen had taken out a writ on August 2 against the owners of the Golden Builder for damages resulting from the non-delivery of cargo.

According to sources, the Golden Builder was supposed to proceed to Fuzhou, China, to pick up a cargo of 299.933 tonnes of aluminium ingots on July 7 for shipment to Nagoya and/or Yokohama, Japan. The sale of the ingots was reportedly arranged by Lam Honhung, the sole proprietor of Po Hun Hong, whose offices at the time were in New York House in Hongkong's Central business district.

The nearly US$4 million freight (which included items other than the aluminium) was prepaid by the Japanese shippers which included Kanematsu-Gosho, another major trading house. But the cargo was never actually ordered in China, with all the cargo documentation allegedly being forged. Nichimen has declined to answer press inquiries while Kanematsu-Gosho, contacted by the REVIEW, gave a "no comment" reply regarding the aluminium ingots.

This is apparently similar to a case involving a cargo fraud on the Bonnaza, in which the cargo existed but the ship did not and the shipping documentation was forged. There too, shippers had paid a middleman for freight which was never delivered and shipping documentation was forged (REVIEW, May 23, '80).

The Golden Builder's master, Kwok Hok-hoi, was under instructions from the Hongkong agents to proceed to Bangkok. However, in filling up the Hongkong Marine Department departure forms, Kin Wah indicated that the vessel was to proceed to Fuzhou. Kin Wah's representative signed the forms rather than the vessel's master. The vessel began its strange odyssey when the engines broke down en route to Bangkok and the vessel drifted for several days. The ship received telex instructions from Hongkong to proceed to the Philippines, first heading for Manila (but being denied entry) and later putting into San Fernando in northern Luzon for fuel and provisions.

The vessel sailed for Japan via Taiwan, weathered typhoon Wayne outside Kaohsiung and eventually sought shelter outside Fuzhou. The vessel apparently tried a number of times to contact Hongkong but failed and eventually decided to head for Hongkong. On July 31 the ship received instructions to proceed to Keelung in Taiwan but upon arrival was refused permission to put in. Three days later, the ship arrived in Hongkong, from where it had started its voyage.

Kin Wah Navigation disappeared shortly before the Golden Builder reappeared, leaving a string of addresses and telephone numbers around Hongkong. The crew of the Golden Builder expected to find the company in New York House at the same address which Po Hun Hong was previously occupying. This address was unoccupied. The company also had an address in Dominion Centre (in Hongkong's Wanchai district) from which, however, it had been absent for around three months, according to sources. Another address was given in Sincere Building in Central district but checking revealed that Kin Wah had left these premises nearly five years ago. Finally, Kin Wah also gave an address at the Tai Sang Commercial Building in Hongkong's Western district which was the office of Deway Shipping. According to an employee, who used to work for Kin Wah, the company left the premises three months ago.

Kin Wah Navigation was formed in 1973 and consists of three shareholder/directors: Lo So-sung, Law Kwok-kan and So Chun-chi. The company has been acting as a shipping agent and shipbroker and also as a crewing agency. Among the companies for which Kin Wah has supplied crews are Oneness Shipping and Tonbon Shipping, both located in Hongkong.

Tonbon is associated by common directors and other elements with a group of companies that include Port Engineering, Cheung Lee Warehouse, Gulf Ocean Lines and Greenland Line which have suffered 11 casualties in recent years; insurance investigators have been involved in a number of these cases. Among these casualties were two particularly suspicious sinkings, that of the God Pioneer I and the Starter (REVIEW, Nov. 16, '79). In 1979, Kin Wah was sued by Ban Thong, a Hongkong trading firm, for the short-shipment of wheat husks to Indonesia. According to Ban Thong, the matter was dropped as the insurance on the cargo covered the loss.

The ownership of the Golden Builder has changed hands several times in recent years. The vessel was owned by Kanematsu-Gosho through a company called Naeco Navigation registered in Panama. Naeco is listed under Kanematsu-Gosho in Lloyd's shipping register as the "agent" of the Golden Builder, though the distinction between ownership and management is often blurred on Panamanian-registered vessels.

On August 4, 1982, the vessel was sold by Naeco to Goodtrip Marine Co. SA a single ship-owning company. In this deal, Lee Boon Chean and Alfred Kao signed

*ptain Kwok Hok-hoi: proceeding under instruction.*

behalf of Goodtrip. When the REVIEW ed Kanematsu-Gosho about the own- hip of the vessel, the company replied it "had owned the Golden Builder old her [in] December 1976" and that name of Goodtrip Marine is un- wn to us."

he officers and directors of Goodtrip rine included Lee, Kao and Shin Ying n. Lee, also known as Lee Man-chin, , according to public records, a reholder in Port Engineering and nsportation and Greenland Line.

e had also served aboard the vessels anah (which sank in 1959), Sunning National Glory which also were lost. wife, Mak Mei-yuk, was a director of the company owning the National Glory.

On August 8 — three days after the Golden Builder's arrival back in Hongkong and six days after the writ was issued against the owners — a new set of directors was appointed to Goodtrip Marine's board. The new directors were Lo Sung-hung, Lim Ching-hock and Pablo J. Espin. Lo is a director of Kin Wah Navigation and the man that a former employee has described as the boss.

The Hongkong representatives of Goodtrip Marine are Mutual and Commercial Shipping, located in Sincere Building. The principal officers and shareholders in the company include Lee, Mak, Kao and Chen Hsiang-chin. The REVIEW attempted to interview Kao but his staff reported that he was in Taiwan, had left in mid-August and had no contact address. Asked about the Golden Builder, representatives of Goodtrip said they had no knowledge of the ownership of the vessel and had had no contact with the Golden Builder's crew, but that Kao had sent cables to the vessel over the period of the ship's erratic voyage.

Chen is understood to have organised the sale of the vessel from Naeco to Goodtrip but this was neither confirmed nor denied by the Mutual and Commercial staff. Chen has also given his company as Blueline which was associated with a number of ship losses in Taiwan.

Although the interest in the Golden Builder stems largely from the US$4 million cargo which it was supposed to pick up, the effects of the vessel's wanderings are not confined to the business community. Twenty-two seamen, many from Indonesia, are effectively stranded as a result of the voyage and the subsequent disappearance of their agents. In a depressed shipping market employment is tight and even the job on the Golden Builder was for less than the normal wages that a seaman in the region has been receiving. Under these conditions seamen do not like to leave their ship as the chances of collecting back wages seem to diminish with each passing nautical mile. It is likely that the Golden Builder will eventually be auctioned for scrap and that the crew will receive some part of the back wages owed them. P


*This announcement appears as a matter of record only.*

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| India | US$17.50 | US$32.00 | US$58.00 |
| Indonesia | US$15.50 | US$28.50 | US$52.00 |
| Japan | ¥5,850.00 | ¥10,725.00 | ¥19,500.00 |
| Malaysia | M$33.00 | M$60.50 | M$110.00 |
| Nepal | US$17.50 | US$32.00 | US$58.00 |
| Pakistan | US$17.50 | US$32.00 | US$58.00 |
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**INVESTMENT**

# Spotting a market

## International spot gold-trading in Tokyo makes a tentative start, though some doubt the ultimate success of the move

***By Teresa Ma and Mike Tharp***

The first step towards setting up an international spot market for gold has been taken in Tokyo, though the initial response has been less than feverish. Moreover, analysts in Tokyo question whether future demand will be sufficient to continue the spot market's present trial run. Some of the companies involved in recent dealing contend that little has changed from the way spot business was done in the past, though N. M. Rothschild, the Hongkong-based merchant bank which is promoting the experiment, claims new wrinkles offer advantages for investors.

"The biggest attraction is the possibility of a new delivery point for international traders," said Peter Johns, a director of Rothschild in Hongkong. "We have always believed that a successful futures market is dependent upon a successful spot market and [our proposal] will only benefit the futures market."

In March 1982 a gold-futures market was created in Tokyo (REVIEW, April 9, '82), largely at the behest of local commodity brokers. Trading has been desultory. In June, 6,098 kgs of gold were traded, 6,861 kgs in July and in the first 23 days of August volume dropped to 3,472 kgs. The price has remained fairly stable, ranging from ¥3,197 (US$13.27) a gram in March to ¥3,291 in July. An official of the Tokyo Gold Exchange said a spot market would help futures trading because companies could buy from the spot market and sell in the futures market and vice versa.

At present, gold is traded in Tokyo at a 25 US cents premium over the London price due to added shipment costs and the need to refine .995 gold (purity level) measured in ounces as traded in London to .9999 gold measured in kilograms as required by the Japanese market.

Japanese gold consumption is about 10% of global consumption, according to the Japan Gold Metal Association. A spokesman was sceptical about the durability of a spot market in Tokyo. "I cannot say this movement [by Rothschild] will lead to the establishment of a spot market," he said. "The Tokyo market is not mature yet."

Officials of the Ministry of Finance (MoF) and the mining division of the Energy and Natural Resources Agency, which oversees gold transactions, knew little about Rothschild's attempt to penetrate the spot market here. One MoF official doubted whether there would be much linkage between spot and fu markets.

Rothschild's efforts centre on creat two-way market, in which each com presents both buying and selling pric the same time. So far, requirements included yen prices, physical delive the gold in Tokyo in units of 10 kgs cash settlement two days after the tract.

One of the eight major Japanese panies initially approached by the chant bank said other foreign dealer also been promoting spot-market ac and the Rothschild proposal was nc Another Japanese company, noting spot market has already existed in Tc

*The MoF building: doubts about linkage.*

said Rothschild was trying to take t itiative in spot gold dealing.

Rothschild said the experiment, began in late June, would end in Oct If it portends success, the bank hope the market will eventually quote good for at least 100 kgs of gold — a to be achieved over a period of months.

Although investment demand for in Japan fell sharply from 117 tonr 1981 to 72.9 tonnes in 1982, accordin Consolidated Gold Fields report, believes Japan is ready for spot tra The supernormal demand for ph gold resulted from the initial enthu of investors as the market was openi to international traders but such de began subsiding in the second half of he said.

TAY HOON

*MAS aircraft in Kuala Lumpur: top of the growth-rate league.*

AVIATION

# A cut above the rest

**The Asia-Pacific region's air-transport industry is likely to maintain the growth lead it has set above the world average**

*By Ted Morello*

**New York:** The Asia-Pacific air-transport industry, a pacesetter in the field in the decade 1972-82, is likely to maintain that strong position between now and 1992. This projection is based on a survey among its 150 member states by the United Nations' Montreal-based International Civil Aviation Organisation (ICAO). The document, prepared for the ICAO assembly's September 20 to October 10 session in Montreal, covers virtually all activities of scheduled and non-scheduled airlines with the important exception of those of China and the Soviet Union, which did not provide data.

In its general conclusion, the ICAO reported that despite the world recession, the air-transport industry "continued to perform well compared with many other sectors of the economy." In the 1972-82 period, total scheduled air traffic increased at an average rate of 7.6% a year against 2.7% for the world's gross domestic product. Scheduled air-passenger traffic increased 7.7% a year, compared with 7.5% for international tourist arrivals while the growth rate for air-freight traffic was 8% against 3.2% for world production of manufactured goods.

Financially, air-passenger revenues rose 15.2% to US$95 billion in 1982, matching international tourist receipts. Air-freight revenue increased 16% to 32 billion tonne-kilometres (tkms) in 1982, slightly less than the 17.6% rise in the value of manufactured goods exported worldwide.

Measured against an international yardstick, the Asia-Pacific airline performance has been outstanding. For example, carriers based in the region more than doubled their share of international scheduled traffic — passengers, freight and mail — from 13% of the 1972 total of 28.1 billion tkms to 26.4% of the 70.3 billion tkms in 1982, while their European and North American competitors were undergoing a decrease from 44.8% to 38.4% and 28.7% to 18.9%, respectively.

On an annual basis, the growth rate for all international scheduled traffic was 9.6%. For the Asia-Pacific carriers, the average figure was 17.7%, more than triple North America's 5.1% growth. Even more striking: six of the seven ICAO member-state airlines to top a 20% annual growth rate during the decade were in the Asia-Pacific region: Malaysia with 57.3%, South Korea (34.5%), Singapore (34.3%), Indonesia (24.6%), Thailand (24.4%) and the Philippines (20.2%). The seventh, Saudi Arabia, placed in the Middle East region, scored 33.7%.

On the financial side, the ICAO study attributed air transport's comparatively favourable position to the fact that prices to the user did not increase as rapidly as per capita income and price indexes. The annual rate of passenger-fare increase per km. was 7% against 12.8% in developed market economies. For freight, the rate per tkm. rose by 7.3% a year, compared to the market economies' 9% rise in the unit price of manufactured goods exported. Air transport's performance is based on improved productivity resulting from technological innovations.

In 1981, the most recent full-year data available, total operating revenue was US$92.99 billion against operating expenses of US$93.68 billion. The Asia-Pacific region's share of total revenue was US$14.18 billion, or 15.2%, and of expenses, US$13.93 billion, or 14.9% — well below the record for Europe and North America but far and away the leader in the Third World.

For the future, the ICAO projects continued growth in world scheduled passenger traffic, but at a slightly reduced rate: 7% a year for the 1982-92 period as against 7.4% annually over the previous decade. The agency added that as in 1972-82, the Asia-Pacific area, together with the other Third World regions, are expected to experience annual growth in passenger traffic of 8.5-10%, "significantly above the world average."


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# HongkongBank

## The Hongkong and Shanghai Banking Corporation

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# 1983 Interim Results

The Directors announce that the unaudited profit of The Hongkong Bank Group for the six months ended 30 June 1983 was HK$964 million (1982: HK$888 million), an increase of 8.6%. The profit was arrived at after providing for taxation and after making transfers to inner reserves, out of which provision for changes in the value of assets has been made.

The Directors have declared an interim dividend of HK$0.18 per share (1982: HK$0.1636 adjusted), an increase of 10%. The dividend will be payable on 7 October 1983 to shareholders whose names are on the Register of Shareholders on 23 September 1983 and will amount to HK$412 million (1982: HK$374 million).

The following is an unaudited profit and loss statement for the six-month period under review.

| | 6 months to 30 June 1983 | 6 months to 30 June 1982 |
|---|---|---|
| | HK$m | HK$m |
| Net profit of The Hongkong and Shanghai Banking Corporation and its subsidiary companies | 1,010 | 977 |
| Share of net profits of associated companies | 230 | 127 |
| | 1,240 | 1,104 |
| Profit attributable to minority interests in subsidiary companies | (276) | (216) |
| Profit attributable to the shareholders of The Hongkong and Shanghai Banking Corporation | 964 | 888 |
| Transfers to reserves by subsidiary and associated companies | (74) | (52) |
| Interim dividend | (412) | (374) |
| | 478 | 462 |
| Balance brought forward | 2,028 | 1,169 |
| Exchange adjustments | 92 | 25 |
| Retained profits carried forward | 2,598 | 1,656 |
| Earnings per share (adjusted) | HK$0.42 | HK$0.39 |

The following Consolidated Balance Sheet details are also given for the information of shareholders:

| | 30 June 1983 (unaudited) | 31 December 1982 (audited) |
|---|---|---|
| | HK$m | HK$m |
| Total Assets | 428,361 | 379,186 |
| Shareholders' Funds | 16,736 | 15,606 |

To conform to generally accepted international accounting practice, the results of major associated companies have been included in the profit on an equity basis with effect from the year ended 31 December 1982. The figures for the six months to 30 June 1982 have, therefore, been restated on that basis.

**Prospects for the rest of 1983**

Until there is a successful conclusion to the talks now going on between Great Britain and China regarding the future of Hong Kong, it is likely there will be a degree of nervousness in the local market, particularly in the property sector. The economic recovery in the industrialised countries and notably the United States is continuing although the lesser developed countries still face balance of payment problems.

While the banking industry continues to have difficulties in a number of areas the Directors consider that Group profitability will remain at a satisfactory level and are confident of being able to recommend a final dividend of not less than HK$0.37 per share.

**Closing of Register of Shareholders**

The Register of Shareholders will be closed from 12 September until 23 September 1983 (both dates inclusive). In order to qualify for the interim dividend, all transfers (accompanied by the relevant share certificates) must be lodged with the Registrars not later than 4.00 p.m. on 9 September 1983.

By Order of the Board
F R Frame *Secretary*

Hong Kong, 23 August 1983

# Hongkong Bank group slows

Bank boss Michael Sandberg: US boost.

The Hongkong and Shanghai Banking Corp. reported net profits attributable to shareholders for the six months to June 30 of HK$964 million (US$129.2 million), an 8.6% increase on the comparable 1982 figure of HK$888 million. A feature of the results was the increase in the share of net profits of associated companies. These rose 81% to HK$230 million from HK$127 million previously. Net profit of the Hongkong Bank and its subsidiaries showed slower growth, from HK$977 million to HK$1.01 billion. This included a US dollar contribution from 51%-owned Marine Midland Bank of the United States, which has already reported a 27.5% rise in first-half earnings to US$46.9 million. Another subsidiary, the 61%-owned Hang Seng Bank, reported interim earnings up 6% to HK$286.3 million.

Hongkong Bank directors forecast that group profitability will remain at a satisfactory level and that the final dividend would be increased by an effective 10% to not less than 37 HK cents a share. The interim dividend was set at 18 cents a share, an adjusted 10% increase, amounting to a HK$412 million payout (HK$374 million previously).

The directors also noted in their statement that a "degree of nervousness" was likely to persist in the local market, particularly in property, until there was a successful conclusion to the talks on Hongkong's future.

Analysts said the results were a little above market expectations. It is thought the improvement in associates' performance in part reflects sharply increased earnings at 29%-owned Cathay Pacific Airways. The results are after the usual undisclosed transfers to inner reserves, out of which provisions for changes in the value of assets has been made.

— CHRISTOPHER WOOD

## Rising with the tide

Benefiting from higher demand for trade and industry financing resulting from the economic recovery since the beginning of this year, Asia Credit and Thai Investment and Securities (Tisco) — Thailand's two biggest publicly listed finance and securities firms — reported substantially higher earnings during the first half of this year. Asia Credit, the bigger, posted a Baht 37.8 million (US$1.6 million) after-tax profit, up 89% from the first half of 1982. Tisco's Baht 35.1 million net profit represents a giant 241% increase over the same period last year. Their total assets stood at Baht 5.5 billion and Baht 3.8 billion respectively, at the end of June, up 13% and 28% respectively from June 1982.

— PAISAL SRICHARATCHANYA

## Alcan down again

Losses of major aluminium group Alcan Australia worsened to A$14.9 million (US$13 million) in the first half of this year, compared with A$2.5 million in the same period in 1982. Turnover was virtually unchanged at A$112.2 million (previously A$111.5 million). For the second half, an improved performance is expected, following a general rise in aluminium prices and demand.

The group is currently reviewing plans to install a third potline at its Kurri Kurri smelter, where it is now lifting production — at 80% of capacity at present — back to optimum levels. Interest charges during the first half fell to A$10.5 million (previously A$12.7 million) while the depreciation provision was boosted to A$7 million from A$6 million. No interim dividend has been declared.

— BRIAN ROBINS

## Woolworths' mark-up

Major Australian retailer Woolworths has reported a 15.6% increase in its net profit to A$17.6 million (US$15.5 million) for the six months ended July 27. Turnover during the period increased 10.5% to A$1.5 billion from the previous A$1.4 billion. The profit rise was restricted by a 53% increase in interest charges to A$6.4 million (previously A$4.1 million) and a depreciation provision of A$12.5 million (up from A$10 million). The tax provision was boosted to A$12.2 million (previously A$10.6 million). There was a minor extraordinary loss of A$450,000. An interim dividend of 4.5 A cents, the same as in the previous period, was declared from earnings per share which rose to 10 cents from 8.7 cents.

— BRIAN ROBINS

## Tin dredgers thin

As a result of the export controls imposed by the International Tin Council since July 1982, Aokam Thai and Tongkah Harbour — the two largest offshore tin-dredging companies with Malaysian interests listed on the Bangkok stock exchange — recorded lower earnings during the first half of this year compared to the same period in 1982.

On the back of declining production, Aokam Thai's revenue from sales of tin during the half dropped by 24.7% from the same period in 1982 to Baht 109 million (US$4.7 million) while after-tax profit dipped 57.7% to Baht 8.7 million. Tongkah Harbour also reported an 8.7% decline in revenue (to Baht 48.8 million) and a whopping 75% drop in net profit (to Baht 1.3 million) over the same period.

— PAISAL SRICHARATCHANYA

## OUB still ahead

Group after-tax profit of Singapore's Overseas Union Bank (OUB) for the first half of this year was up 8.5% to S$21.6 million (US$10 million). At the bank level net profit rose 2.3% to S$20.1 million. Also contributing to the group's profit was a finance subsidiary, Overseas Union Trust, which reported a rise of 40.3% in pre-tax profit to S$3 million. OUB recommended a dividend of 10% gross.

— V. G. KULKARNI

## Jennings' earnings up

Australian home-building and construction group Jennings Industries boosted its net profit to A$9.7 million (US$8.5 million) in the year to June 30, compared to the previous year's A$9.4 million. Tax reductions stemming from the purchase of Dillingham Australia offset a pre-tax profit fall of 40% to A$9.8 million from A$16.1 million previously.

Turnover during the year rose 15% to A$512 million, from A$444 million. The tax bill was a negligible A$36,000, compared with A$6.7 million previously. Extraordinary losses of A$1.8 million cut the final profit to A$7.9 million (previously A$10.8 million). An unchanged final dividend of 5 A cents gives a steady 10 cents payout for the year.

— BRIAN ROBINS

## Mitsubishi arm loses

Mitsubishi Motors Australia has reported a net loss of A$13.8 million (US$12.1 million) in the six months to June 30 compared with a net profit of A$1.2 million in the same period in 1982. Further losses are expected for the remainder of the year. Depressed demand and intense price competition have been cited for the deterioration of the group's profit performance. Revenue slipped 3.6% to A$273.3 million, from A$283.5 million the year before. Higher interest charges of A$5.9 million (previously A$1.5 million) and a depreciation provision of A$8.4 million (A$6.5 million) weighed down the profit performance. The tax provision was a negligible A$54,000.

In 1982, Mitsubishi Motors lost A$11.9 million and the full-year 1983 loss could be easily double this. Despite the loss, the group has maintained its market share at an unchanged 11.6%. No dividend has been declared.

— A CORRESPONDENT

# Tokyo stays well in the lead

TOKYO continued to break higher ground, breaching the 9,200-point mark on the Nikkei-Dow Jones Average in the period to Aug. 22, which also saw strong gains in Singapore, Kuala Lumpur and Australia. Seoul investors stayed out owing to the mounting controversy over government investigations of alleged fraud in certain corporate affairs.

**TOKYO:** Propelled by encouraging economic news at home and abroad, the stockmarket shot through the 9,200-point level on the Nikkei-Dow Jones Average for the first time, closing at 9,203.75 on Aug. 22. Although volume remained moderate, investors seemed buoyed by continued advances on both the New York and London exchanges. Blue chips, such as Kyocera, TDK, Hitachi and Mitsubishi Electric and high-technology issues were very strong. Precision instruments and some pharmaceuticals, especially those announcing new drugs or research programmes, also gained across the board. The weakness of the yen against the US dollar appears to be the only negative factor for the near term.

**SINGAPORE:** The market surged in active trading, with Fraser's Industrial Index closing at 5,604.1 for a gain of 132.42 points over the previous period. A government projection that Singapore's economy could achieve 6-7% growth this year if the United States recovery stays on course continued to encourage the market. Some brokers are predicting that the correction may be over and that the run-up to another bull phase may be in the offing. However, other brokers think the market's rise has come too soon and been too fast. Turnover in the five-day period was 67.6 million units, a daily average of 13.5 million.

**KUALA LUMPUR:** Strong investor buying support pushed the stockmarket up, with Fraser's Industrial Index closing at 3,669.7, up 213.72 points from the previous close. There was encouraging news from Wall Street and locally listed companies turned in favourable interim results. Another factor that boosted the market was the forecast by analysts that plantation companies were likely to score strong earnings growth this year. A total of 45.3 million shares changed hands in the five-day period for a daily average of slightly more than 9 million units.

**SEOUL:** A week in which the government disclosed a number of corporate irregularities and fraud allegations that culminated in the arrest of the Myongsong group chairman and sparked corollary investigations into the kerb money market and a commercial bank, left investors badly shaken and kept the market weak. The composite index slipped for the third straight period, dipping 0.51 of a point to close at 122.13. Good first-half reports by 226 companies, word that some large firms will issue new shares and heavy purchases by institutional investors averted a steeper decline, analysts said. Daily volume averaged 5.7 million shares.

**HONGKONG:** A renewed bout of political nerves, prompted by a statement by Chinese General Secretary Hu Yaobang to Japanese newspaper executives (REVIEW, Aug. 25), resulted in further market weakness. The Hang Seng Index closed at 1,000.23, down 47.01 points or 4.5% on the period. Average daily turnover remained low at HK$125 million (US$16.9 million), suggesting that the selling bout was far from a panic. Brokers expect a quiet period ahead with a relatively firm undertone at present levels, short of further unexpected developments on the political front. In the short term, a series of upcoming interim corporate result announcements will influence sentiment.

**MANILA:** Total turnover for the period reached ₱31.3 million (US$2.8 million) though in volume terms was thin at 295.3 million shares. Accounting for more than a third of total value were two block sales: one involved ₱10.8 million-worth of B shares in Philex Mining, said to be for the account of a still unspecified Hongkong investor, the other, ₱1.7 million-worth of Anscor shares, with the buyer identified as this company's own stockbrokerage arm, Anscor-Hagedorn Securities. There was some speculative support for Oriental Petroleum and Trans-Asia despite the oil-drilling lull. In a mixed mining section, net gainers included Atlas and Benguet.

**AUSTRALIA:** Trading levels remained strong ahead of a widely expected austere federal budget on Aug. 23. The Australian All-Ordinaries Index rose by an impressive 17.2 points over the previous period's mark to finish at 690.6 points. Most traders are confident the market trend for the rest of the year will remain bullish and have shrugged off concern over what impact the budget will have. The only soft area was gold producers, owing to speculation about a possible tax on profits from gold mining, which are exempt at present. The index, now standing at a 25-month high, is expected to move much higher in medium-term trading. Market leader BHP has continued to be strongly sought.

**NEW ZEALAND:** Prices showed little overall change as trading quietened after the excitement of previous weeks. Even oils were quiet as investors considered the impact of announced or rumoured floats on demand for existing scrip. With institutional investors generally out of the market, individuals are setting the trend. Late converts to the bull market are providing an exit — and profit — for earlier entrants. At period's end the lack of a clear overall trend looked likely to persist for some time.

**TAIPEI:** Although analysts said the market was still in a correction phase, they noted institutional investors have helped firm up prices and drive away the recent selling trend. Trading was mixed for most of the period, but buyer interest was keen in cement and construction issues. The weighted index closed 16.73 points up at 717.41. A decision by local banks to maintain interest rates at current levels fortified confidence that the economic recovery would strengthen. Turnover was relatively weak, however, averaging NT$769 million (US$19.2 million) a day.

**BANGKOK:** Despite a slight improvement in the Book Club Index, which gained 0.59 of a point at its closing 131.52, the market finished the period easier, with investors demonstrating a lack of interest. Overall, the market appeared hesitant, unable to decide whether newly announced strong corporate earnings justified another rally, or whether fears of higher interest rates would hold the market back. Average turnover was Baht 27.2 million (US$1.2 million) a day.

## AUSTRALIA

**Aust. All-Ordinaries Ind**

| | |
|---|---|
| Aug. 16 | |
| Aug. 17 | |
| Aug. 18 | |
| Aug. 19 | |
| Aug. 22 | |
| Change on week | + |

| | 'Aug. 22 A$ | % chan on |
|---|---|---|
| Amatil | 2.65 | + |
| Ampol Exploration | 3.00 | +1 |
| Ampol Petroleum | 1.61 | +1 |
| ANZ Bank | 4.59 | +0.2 |
| Australian Cons. Ind | 1.61 | +6.6 |
| Australian Guarantee | 2.27 | −1.3 |
| APM | 2.16 | +1.9 |
| Boral | 3.15 | −1.3 |
| Bougainville | 3.02 | +1.3 |
| Brambles Ind | 2.67 | −0.3 |
| BHP | 11.68 | +7.6 |
| Burns Philp | 2.90 | +13. |
| CIG | 2.72 | +0. |
| Carlton United Brewery | 2.88 | +3. |
| Coles GJ | 3.09 | +0. |
| Comalco | 3.13 | +6. |
| CSR | 4.20 | −0. |
| Dunlop Australia | 1.34 | −0. |
| EZ Industries | 5.96 | −1. |
| Elder Smith GM | 4.08 | +1. |
| Hardie J. | 4.01 | +0. |
| Herald & Weekly Times | 2.69 | −0. |
| ICI Australia | 2.05 | +2. |
| Lend Lease Corp. | 4.85 | +5. |
| MIM Holdings | 4.44 | +1. |
| Myer Emporium | 1.59 | +3. |
| North Broken Hill | 3.25 | +3. |
| Peko Wallsend | 7.53 | −2. |
| Pioneer Concrete | 1.59 | +3. |
| Santos | 7.98 | +2. |
| Smith H. | 4.15 | +2. |
| Thomas Nationwide Trans | 2.06 | +2. |
| Western Mining | 5.01 | +2. |
| Westpac | 3.11 | +0. |
| Woodside | 1.32 | +6. |
| Woolworths | 2.33 | +1. |

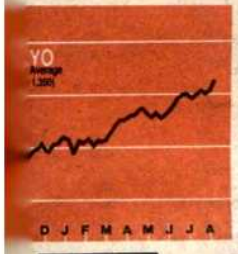
## HONGKONG

**Hang Seng Index**

| | |
|---|---|
| Aug. 16 | 1 |
| Aug. 17 | 1 |
| Aug. 18 | 1 |
| Aug. 19 | |
| Aug. 22 | 1 |
| Change on week | |

| | Aug. 22 HK$ | % cha on we |
|---|---|---|
| Associated Hotels | 1.85 | −2. |
| Atlas Ind | 6.65 | −10 |
| Bank of E.A. Ex Div | 26.40 | −4. |
| Carrian | Suspended | — |
| Cheung Kong | 8.40 | −6. |
| China Light | 16.20 | −3. |
| Conic | 1.98 | +1. |
| F. E. Consortium | 0.74 | −6. |
| F. E. Hotels Ex Div | 0.96 | −2. |
| First Pac. Holds. | 5.30 | −6. |
| Grand Marine | Suspended | — |
| Great Eagle | 0.64 | −5. |
| G. Island Cement | 16.00 | −9. |

| | | | |
|---|---|---|---|
| elopment | 2.275 | -5.2 | 9.7 |
| | 45.00 | -8.6 | 4.1 |
| | 6.50 | — | 8.0 |
| | 1.14 | -7.3 | 3.5 |
| | 5.90 | -3.3 | 5.9 |
| | 57.50 | -7.3 | 2.7 |
| | 3.95 | -6.0 | 4.1 |
| | 3.75 | -7.4 | 6.9 |
| | 7.90 | +0.6 | 6.3 |
| | 27.00 | -0.7 | 3.7 |
| | 3.95 | -3.1 | 12.7 |
| | 38.75 | -2.5 | 3.9 |
| | 2.525 | -6.5 | 5.9 |
| | 1.75 | -4.9 | 5.7 |
| | 0.92 | -5.2 | 9.2 |
| inpoa | 13.30 | -6.3 | 3.4 |
| | 0.59 | -7.8 | 5.1 |
| | 13.40 | -3.6 | 6.0 |
| | 9.40 | -8.7 | 10.6 |
| | 1.80 | — | 7.8 |
| | 12.50 | — | 15.2 |
| | 3.20 | -6.6 | 7.2 |
| | 2.90 | — | 9.3 |
| | 3.90 | -4.9 | 6.7 |
| | 2.925 | -20.4 | 6.8 |
| | 2.125 | — | 15.1 |
| | 6.40 | -5.2 | 10.0 |
| | 1.47 | — | 13.6 |
| | 5.45 | -9.2 | 8.8 |
| | 15.00 | -8.5 | 5.1 |
| | 0.99 | -5.7 | 2.0 |
| | 0.56 | -9.7 | 26.8 |
| | 2.75 | -3.5 | 12.4 |
| | 3.275 | -3.0 | 10.7 |
| | 1.95 | -4.9 | 2.6 |
| | 2.55 | -5.6 | 4.7 |
| | 5.70 | -3.4 | 6.5 |
| | 1.70 | -4.0 | 7.1 |




## JAPAN

### Dow Jones Average

| | |
|---|---|
| | 9,019.07 |
| | 9,010.08 |
| | 9,089.58 |
| | 9,139.73 |
| | 9,137.13 |
| | 9,203.75 |
| week | +2.03% |

| | Aug. 22 Yen | % change on week | P/e ratio |
|---|---|---|---|
| | 1090 | — | 45.0 |
| | 501 | +2.2 | 15.7 |
| | 275 | -0.7 | 77.2 |
| | 525 | -3.0 | 45.2 |
| | 1500 | +0.7 | 41.6 |
| | 585 | +12.5 | 25.9 |
| g | 903 | +17.9 | 23.9 |
| | 515 | +3.6 | 29.3 |
| | 334 | +0.3 | 26.1 |
| | 2390 | +5.8 | 18.6 |
| | 1390 | +8.6 | 39.6 |
| | 578 | +4.5 | 66.4 |
| | 893 | +1.7 | 33.0 |
| | 870 | +0.2 | 23.9 |
| | 161 | +0.6 | 18.5 |
| | 718 | +8.6 | 51.2 |
| | 308 | -0.6 | 12.3 |
| | 479 | -1.2 | 56.5 |
| | 627 | -1.3 | 27.1 |
| | 594 | +1.5 | 13.8 |
| | 445 | +3.5 | 19.9 |
| | — | — | 37.8 |
| | 413 | +1.2 | 10.0 |
| nd | 1660 | +3.1 | 26.9 |
| Viks | 580 | -4.1 | 21.7 |
| | 447 | +1.4 | 27.3 |
| | 205 | +1.0 | 40.2 |
| | 365 | +3.4 | 33.9 |
| | 689 | +2.7 | 34.1 |
| | 347 | -0.3 | — |
| | 890 | +8.5 | 40.4 |
| | 703 | -1.0 | 11.6 |
| | 920 | +5.1 | 43.3 |
| | 165 | +1.9 | 33.2 |
| | 773 | +3.6 | 38.4 |
| | 235 | +1.3 | 13.3 |
| | 1070 | — | 22.2 |
| | 2630 | +7.3 | 30.9 |
| | 915 | +7.8 | 51.1 |

| | | | |
|---|---|---|---|
| Sanko Steamship | 227 | -0.4 | — |
| Sankyo Pharm | 760 | -3.1 | 23.0 |
| Sanwa Bank | 500 | — | 30.4 |
| Sekisui Prefab Homes | 625 | -1.1 | 15.1 |
| Sharp | 1470 | +2.8 | 38.2 |
| Shiseido | 1180 | +19.2 | 21.1 |
| Sony | 3340 | -0.9 | 18.4 |
| Sumitomo Bank | 500 | -0.2 | 18.5 |
| Taisei Const | 217 | -0.5 | 12.4 |
| Takeda Chem. | 835 | +3.3 | 31.6 |
| Tokio Marine and Fire | 477 | +0.6 | 28.6 |
| Tokyo Elec. Power | 971 | -0.9 | 11.9 |
| Toray | 437 | +1.9 | 36.9 |
| Toto | 490 | +4.7 | 20.6 |
| Toyo Kogyo | 415 | -1.0 | 14.1 |
| Toyota Motor | 1190 | -1.7 | 20.1 |
| Yamaha Motor | 515 | -1.0 | — |

## NEW ZEALAND

### NZUC Index

| | |
|---|---|
| Aug. 16 | 938.49 |
| Aug. 17 | 940.59 |
| Aug. 18 | 943.54 |
| Aug. 19 | 938.94 |
| Aug. 22 | 937.60 |
| Change on week | -0.17% |

| | Aug. 22 NZ$ | % change on week | % yield |
|---|---|---|---|
| Alex Harvey | 3.85 | -1.3 | 5.7 |
| Brierley | 4.30 | +2.4 | 2.3 |
| Carter Holt | 3.15 | -3.1 | 3.5 |
| Dominion Breweries | 1.61 | +0.6 | 6.2 |
| Feltex | 1.70 | -1.2 | 6.8 |
| Fletcher Challenge | 2.53 | -0.8 | 6.7 |
| Lion Breweries | 2.28 | — | 5.6 |
| NZ Forest Products | 4.35 | -1.1 | 5.5 |
| NZ Oil and Gas | 1.40 | -1.4 | — |
| NZ South British | 1.20 | +2.6 | 6.3 |
| NZ Steel | 3.05 | — | 5.9 |
| UEB Industries | 1.66 | -2.4 | 7.5 |
| Waitaki NZR | 3.43 | -2.0 | 6.1 |
| Wattie | 2.40 | +4.4 | 5.0 |

## PHILIPPINES

### Manila Mining Index

| | |
|---|---|
| Aug. 16 | 1,469.98 |
| Aug. 17 | 1,450.47 |
| Aug. 18 | 1,454.48 |
| Aug. 19 | 1,454.48 |
| Aug. 22 | 1,418.40 |
| Change on week | -2.96% |

| | Aug. 22 Peso | % change on week | % yield |
|---|---|---|---|
| Acoje Mng | — | — | — |
| Atlas-B | 34.50 | +7.8 | — |
| Baguio Gold-B | 0.0028 | — | — |
| Fil-Am | — | — | — |
| First Holdings | 6.50 | — | 16.4 |
| Lepanto-B | 0.12 | -4.0 | — |
| Marcopper | 1.19 | — | — |
| Marinduque-B | — | — | — |
| Philex-B | 0.20 | -2.4 | 2.4 |
| PLDT | 38.00 | -1.3 | 12.9 |
| Phil Overseas | 0.017 | +6.3 | 3.0 |
| Pioneer-B | — | — | — |
| Podco-B | 0.0013 | — | — |
| San Miguel-B | 22.00 | +1.0 | 6.4 |
| W Minolco-B | 0.001 | — | — |

## SINGAPORE

### Fraser's Industrial Index

| | |
|---|---|
| Aug. 16 | 5,531.91 |
| Aug. 17 | 5,535.95 |
| Aug. 18 | 5,555.37 |
| Aug. 19 | 5,574.46 |
| Aug. 22 | 5,604.10 |
| Change on week | +2.42% |

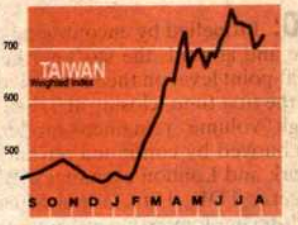
| | Aug. 22 S$ | % change on week | % yield |
|---|---|---|---|
| Berjuntai | 5.30 | — | 12.3 |
| Boustead | 2.88 | +2.9 | 2.6 |
| C Sugars | 19.10 | +15.8 | 1.6 |
| Cold Storage | 5.85 | +11.4 | 1.9 |
| C&C | 6.30 | +4.1 | 3.2 |
| Dev. Bank of Singapore | 9.90 | +7.0 | 1.6 |
| Dunlop Estates | 2.14 | +2.3 | 2.8 |
| Dunlop Industries | 4.26 | +12.1 | 6.7 |
| Fraser and Neave | 9.95 | +5.9 | 2.8 |
| Gentings | 4.90 | +7.5 | 3.6 |
| Guinness | 4.20 | +1.9 | 5.2 |
| Hanmau Inv | 0.90 | -2.2 | 5.6 |
| Haw Par | 2.42 | +0.8 | 4.1 |
| H Leong Fin | 4.70 | +0.4 | 1.2 |
| Inchape | 3.32 | +1.2 | 5.3 |
| Island & Peninsular | 5.80 | +0.3 | 3.1 |
| Jacks Int | 5.80 | -4.9 | — |
| K L Kepong | 3.08 | +9.2 | 4.1 |
| Keppel Ship | 3.60 | +0.6 | 6.9 |
| Magnum | 4.46 | +2.8 | 3.4 |
| Malayan Banking | 9.40 | +2.7 | 2.3 |
| Malayan Breweries | 6.40 | +1.6 | 3.6 |
| Malayan Tobacco | 5.90 | — | 7.6 |
| M M C | 2.54 | +3.7 | 4.3 |
| M U I | 3.16 | +1.9 | 2.1 |
| Metal Box Singapore | — | — | — |
| M P H | 2.06 | -29.2 | — |
| National Iron | 6.80 | -9.9 | 2.5 |
| N. Borneo Timbers | 2.31 | +3.1 | 3.2 |
| O C B C | 10.90 | — | 1.5 |
| Pan Electric | 2.93 | +2.4 | 0.4 |
| Pegi Malaysia | 2.38 | +3.5 | 1.1 |
| Shell | 8.80 | +2.9 | 3.4 |
| Sime Darby | 2.52 | +9.1 | 4.3 |
| Singapore Land | 6.10 | -2.4 | 0.8 |
| Straits Steamship | 1.90 | -1.6 | 2.1 |
| Straits Times | 10.10 | +4.1 | 1.7 |
| Straits Trading | 6.00 | +8.1 | 2.8 |
| Tractors | 3.66 | +1.7 | 8.2 |
| United Engineers | — | — | — |
| U.O.B. | 5.30 | +1.0 | 3.4 |
| United Overseas Land | 3.22 | +5.2 | 1.9 |
| Wearne Bros | 4.00 | +9.9 | 3.0 |

## SOUTH KOREA

### Composite Index

| | |
|---|---|
| Aug. 16 | 122.17 |
| Aug. 17 | 121.49 |
| Aug. 18 | 122.27 |
| Aug. 19 | 121.60 |
| Aug. 20 | 121.63 |
| Aug. 22 | 122.13 |
| Change on week | -0.42% |

| | Aug. 22 Won | % change on week | % yield |
|---|---|---|---|
| Commercial Bank of Korea | 880.00 | -1.1 | 6.8 |
| Daelim Ind. | 590.00 | -2.5 | 8.5 |
| Daewoo Heavy Ind | 577.00 | -2.2 | 6.9 |
| Dong-A Construction | 760.00 | — | 6.6 |
| Gold Star Cable | 1,100.00 | +3.3 | 5.5 |
| Han Yang Corp | 496.00 | -1.2 | 8.1 |
| Hanil Bank | 900.00 | -1.1 | 6.7 |
| Hyundai Corp | 660.00 | -1.5 | 7.6 |
| Korea Oil Holding | 794.00 | +0.5 | — |
| Korean Airlines | 581.00 | -3.6 | — |
| Lucky Ltd | 1,004.00 | +6.2 | 5.0 |
| Samsung Electronic | 980.00 | -1.0 | 5.1 |
| Samwhan Corp. | 715.00 | -1.4 | 7.0 |
| Sunkyung | 577.00 | -1.9 | — |
| Korea International Trust US$ | 8.78664 | -0.5 | — |
| Korea Trust US$ | 13.97 | -0.4 | — |




## TAIWAN

### Weighted Index

| | |
|---|---|
| Aug. 16 | 708.38 |
| Aug. 17 | 717.97 |
| Aug. 18 | 715.51 |
| Aug. 19 | 713.01 |
| Aug. 20 | 711.28 |
| Aug. 22 | 717.41 |
| Change on week | +2.39% |

| | Aug. 22 NT$ | % change on week | % yield |
|---|---|---|---|
| Asia Cement | 27.20 | +3.8 | 1.8 |
| Cathay Const. | 27.30 | +1.1 | 8.1 |
| China Rebar | 11.50 | +4.1 | — |
| Chung Hwa Pulp | 20.10 | +2.0 | 2.5 |
| Chung Shing Textile | 13.30 | +1.5 | — |
| Far East Textile | 15.90 | +3.2 | 2.5 |
| Formosa Plastic | 28.80 | +3.2 | 2.8 |
| Nan Ya Plastic | 26.60 | +2.3 | 2.6 |
| Taiwan Cement | 22.70 | +4.1 | 2.6 |
| Tatung | 15.40 | +2.0 | 3.3 |
| USI Far East | 28.30 | +4.8 | 7.1 |
| Yue Loong Motor | 17.40 | +1.2 | — |

## THAILAND

### Bangkok Book Club Index

| | |
|---|---|
| Aug. 16 | 131.16 |
| Aug. 17 | 131.42 |
| Aug. 18 | 131.73 |
| Aug. 19 | 131.63 |
| Aug. 22 | 131.52 |
| Change on week | +0.45% |

| | Aug. 22 Baht | % change on week | % yield |
|---|---|---|---|
| Bangkok Bank | 274.00 | -1.5 | 13.1 |
| Berli Jucker | 431.00 | -0.9 | 7.0 |
| IFCT | 153.00 | — | 8.8 |
| Jalaprathan Cement | 188.00 | +0.5 | 6.7 |
| Rama Tower | 50.50 | — | — |
| Siam Cement | 399.00 | +1.0 | 8.0 |
| Serm Suk | 500.00 | +17.9 | — |
| Thai Farmers Bank | 268.00 | -0.7 | 11.9 |
| Thai Glass | 287.00 | — | 7.0 |

**SOURCES**

*Japan*: Nomura International (HK). *Hongkong*: Hongkong Stock Exchange. Hang Seng Bank. *Australia* and *Singapore*: Reuters. *Philippines*: Anselmo Trinidad & Co. *Thailand*: Book Club Finance and Securities Co. *New Zealand*: Renouf Partners. *South Korea* and *Taiwan*: Gartmore (Hongkong) Ltd.

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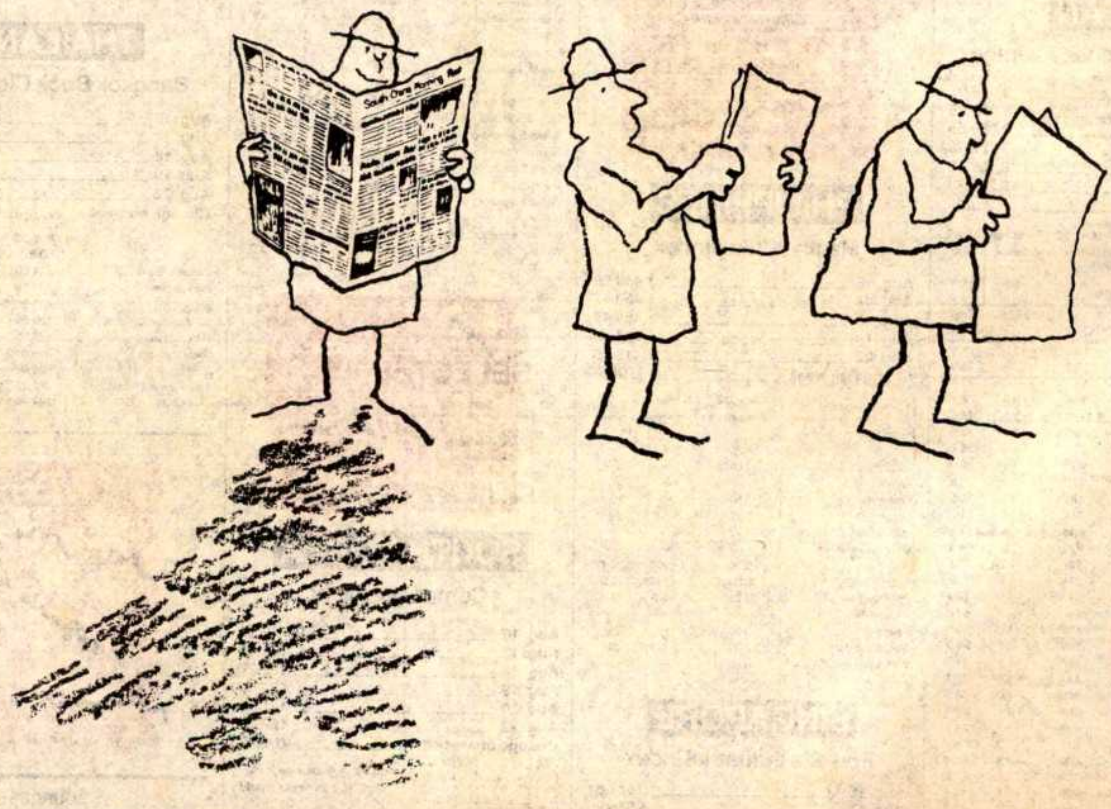

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# PRICES AND TRENDS

## CURRENCIES

| Aug. 22 US$1 WORTH | | Banknote rate | Spot rate † | 3 months ago † | year ago † |
|---|---|---|---|---|---|
| Australia | dollar | 1.13 | 1.128 | 1.135 | 0.952 |
| Britain | pound* | 1.555 | 1.535 | 1.570 | 1.783 |
| Canada | dollar | 1.225 | 1.232 | 1.234 | 1.228 |
| France | franc | 7.86 | 7.879 | 7.435 | 6.243 |
| Hongkong | dollar | 7.395 | 7.437 | 6.990 | 5.835 |
| Japan | yen | 242.00 | 243.45 | 235.825 | 246.75 |
| Malaysia | ringgit | 2.345 | 2.342 | 2.302 | 2.336 |
| New Zealand | dollar | 1.54 | 1.524 | 1.514 | 1.303 |
| Philippines | peso | 12.30 | 11.016 | 10.068 | 8.371 |
| Singapore | dollar | 2.13 | 2.129 | 2.093 | 2.131 |
| Switzerland | franc | 2.13 | 2.132 | 2.073 | 1.929 |
| Thailand | baht | 22.50 | 22.975 | 22.975 | 22.975 |
| West Germany | mark | 2.617 | 2.619 | 2.479 | 2.408 |

† middle rates * £ is worth US$
3 months forward: Japan ¥243.237, Hongkong HK$7.404, Singapore S$2.117
Singapore-Malaysia: S$1=M$1.10 £1=HK$11.37

| | | Banknote rate | Official rate | | | Banknote rate | Official rate |
|---|---|---|---|---|---|---|---|
| Bangladesh | taka | 26.85 | 24.45 | Nepal | rupee | 18.00 | 14.30 |
| Brunei | ringgit | 2.14 | 2.13 | Pakistan | rupee | 15.10 | 13.30 |
| Burma | kyat | 35.00 | 7.80 | Papua N G | kina | 0.95 | 0.85 |
| India | rupee | 11.55 | 9.90 | South Korea | won | 795.00 | 780.00 |
| Indonesia | rupiah | 985.00 | 980.00 | Sri Lanka | rupee | 24.50 | 24.10 |
| Macau | pataca | 7.62 | 7.59 | Taiwan | NT dollar | 41.50 | 40.00 |

### Communist Countries

| | | |
|---|---|---|
| China | renminbi | US$=Rmb 1.9508 HK$=Rmb 0.2647 |
| Soviet Union | rouble | US$=Rouble 0.75 |
| Laos | kip | US$=Kip 10.00 |
| Vietnam | dong | US$=Dong 9.09 |

Sources: Deak-Perera Far East Ltd for banknote selling rates and official rates when available on the Hongkong market. Reuter for spot and forward rates from local and international markets.

## INTEREST RATES (%)

| Aug. 22 | Hongkong* | Singapore* | Malaysia† | Philippines† | Japan† |
|---|---|---|---|---|---|
| **Prime lending rate** | 11-1/2 | 8-1/2 | 8-1/2 | 17-1/2 | 6-1/2 |
| Month ago | 11-1/2 | 8-1/2 | 8-1/2 | 17-1/4 | 6-1/2 |
| 3 months ago | 11-1/2 | 8-3/4 | 8-1/2 | 17-1/4 | 6-1/2 |
| **Inter-bank 24-hour rate** | 8 | 6-9/16 | 6-1/2 | 17 | 6 |
| Month ago | 3 | 7-5/8 | 6-1/2 | 15 | 6-9/16 |
| 3 months ago | 5 | 5-7/8 | 4 | 15 | 5-15/16 |
| **Inter-bank 1-month rate** | 7-3/4 | 7-1/16 | 8 | 14-1/4 | 6-7/16 |
| Month ago | 7-1/2 | 7-5/8 | 7.55 | 14 | 6-1/2 |
| 3 months ago | 12-3/4 | 7-7/16 | 7-7/16 | 14 | 6-5/16 |
| **Inter-bank 3-month rate** | 8-5/8 | 7-1/4 | 8.05 | 14-3/4 | 6-5/8 |
| Month ago | 8-11/16 | 7-3/8 | 7.65 | 14-1/2 | 6-5/8 |
| 3 months ago | 12-3/2 | 7-7/16 | 7-9/16 | 14 | 6-5/16 |

### EUROCURRENCY AND ASIAN CURRENCY UNIT DEPOSIT RATES

| | US$ | Sterling | Yen | Swiss Fr | Dm |
|---|---|---|---|---|---|
| 7 days | 9-5/8 | — | — | — | — |
| 1 month | 9-11/16 | 9-3/8 | 6-3/8 | 4-3/16 | 4-15/16 |
| 3 months | 10 | 9-3/4 | 6-9/16 | 4-1/2 | 5-3/16 |
| 6 months | 10-5/16 | 10-1/16 | 6-5/8 | 4-5/8 | 5-5/8 |
| 12 months | 10-5/8 | 10-7/16 | 6-11/16 | 4-3/4 | 6-1/16 |
| 2 years | 11-3/4 | — | — | — | — |

* offer and bid rates † middle rates Sources: Astley & Pearce (Hongkong); Higas Co. Ltd

## COMMODITIES

| | Market | Buying and selling rates where available (Aug. 22) Latest | Previous week | 3 months ago | Year ago |
|---|---|---|---|---|---|
| **Copper** | New York (4) | | | | |
| Current delivery (Aug.) | | 73.20 | 74.25 | 77.85 | 65.15 |
| Sept. delivery | | 73.45—73.50 | | | |
| **Tin (standard)** | London (1) | | | | |
| Cash | | 8,420—8,425 | 8,435—8,440 | 8,610—8,611 | 7,205—7,215 |
| 3 months delivery | | 8,540—8,541 | | | |
| **Straits Tin** | Penang (2) | 30.18 | 30.32 | 30.76 | 29.15 |
| **Gold** | London (3) | 424.25—425.00 | 417.75—418.50 | 433—434 | 395—396 |
| **Cotton** | New York (4) | | | | |
| Current delivery (Oct.) | | 80.17 | 80.45—80.50 | 74.00—74.25 | 65.12—65.15 |
| Dec. delivery | | 81.16 | | | |
| **Rubber** | London (1) | 775—780 | 806—815 | 747—760 | 510—512 |
| Current delivery (Sept.) | Kuala Lumpur (10) | 265.50—266.50 | 266—267 | 237.50—238.50 | 199.75—200.25 |
| Current delivery (Sept.) | | | | | |
| **Cocoa** | London (1) | | | | |
| Current delivery (Sept.) | | 1,497—1,498 | 1,583—1,584 | 1,386—1,394 | 905—906 |
| Dec. delivery | | 1,527—1,528 | | | |
| **Palm Oil** | Kuala Lumpur (6) | | | | |
| Current delivery (Aug.) | | 1,070 | 1,085—1,090 | 847.50—852.50 | 680—685 |
| Sept. delivery | | 1,080 | | | |
| **Sugar** | London (7) | | | | |
| Current delivery (Oct.) | | 181.50 | 176.85—176.90 | 172.75—172.85 | 108.40—109.00 |
| Dec. delivery | | 189.00—190.50 | | | |
| **Wheat** | Chicago (7) | | | | |
| Current delivery (Sept.) | | 402.50 | 395.25—396.00 | 354.25—354.50 | 343.00—343.25 |
| Dec. delivery | | 423.25 | | | |
| **Soyabeans** | Chicago (7) | | | | |
| Current delivery (Aug.) | | 862 | 883 | 622.50—623.00 | 569.25—569.50 |
| Sept. delivery | | 867.50 | | | |
| **Maize** | Chicago (8) | | | | |
| Current delivery (Sept.) | | 362.75 | 367.50—367.75 | 306.75—307.00 | 229.00—229.50 |
| Dec. delivery | | 365.50 | | | |
| **Rice** | Bangkok (9) | | | | |
| 5% white fob | | 275 | 272 | 275 | 288 |

(1) £ a tonne (2) M$ a kg (3) US$ an oz (4) USc a lb (6) M$ a long ton (7) USc a 60 lb bushel
(8) USc a 55 lb bushel (9) US$ a tonne (10) M$ a kg

Source: Reuter

## BOND PRICES

| Fixed-interest bonds (US$) | Aug. 22 |
|---|---|
| Australia 8-1/4 1992 | 83-1/2—84 |
| Canada Govt 14-3/8 1987 | 108-3/8—108-7/8 |
| Citicorp 16-3/4 1986 | 106-1/4—106-3/4 |
| CNA 15-1/4 1996 | 111-3/8—111-7/8 |
| Deutsche Bank 14-1/4 1989 | 107-1/4—107-3/4 |
| ECSC 11-1/2 1988 | 98-1/4—98-3/4 |
| EDC 10-3/4 1988 | 97-7/8—98-3/8 |
| EDF 11-1/4 1990 | 95—95-1/2 |
| EEC 14-3/4 1993 | 109—109-1/2 |
| EIB 11 1991 | 94-5/8—95-1/8 |
| EIB 15-3/4 1991 | 115-3/4—116-1/4 |
| G Mac 14-3/4 1987 | 104-1/4—104-3/4 |
| IBJ 10-7/8 1990 | 92-5/8—93-1/8 |
| Midland 11-1/2 1992 | 95-5/8—96-1/8 |
| Mitsubishi Fin 11-3/8 1990 | 95-1/8—95-5/8 |
| Nat West 14-3/4 1991 | 111—111-1/2 |
| Nippon Cr Bank 11-1/4 1993 | 92-7/8—93-3/8 |
| Prudential 12-3/4 1987 | 104-5/8—105-1/8 |
| Revlon 11 1990 | 96-1/8—96-5/8 |
| SNCF 13 1991 | 101-1/2—102 |
| Statoil 9-5/8 1989 | 92-3/8—92-7/8 |
| Sweden 12-3/8 1985 | 100-1/2—101 |
| Swed Ex Cr 15-3/4 1986 | 106-3/8—106-7/8 |
| Walt Disney 15-3/4 1986 | 104-1/2—105 |
| World Bank 10-7/8 1990 | 95-7/8—96-3/8 |
| World Bank 10-7/8 1993 | 93-5/8—94-1/8 |
| World Bank 11-1/8 1998 | 95-1/2—96 |
| World Bank 15 1987 | 108-3/4—109-1/4 |
| **Floating-rate notes** | |
| Barclays 1995 | 100.62—100.82 |
| CNCA 1990/1995 | 98.75—98.95 |
| EEC 1988/1990 | 99.36—99.43 |
| Man Han 1994 | 100.30—100.50 |
| New Zealand 1987 | 100.00—100.20 |
| Offshore Mining 1991 | 99.90—100.10 |
| Sweden 1988/1993 | 100.10—100.20 |

Source: Kidder Peabody Securities Ltd

## ECONOMIC INDICATORS—SELECTED ASIAN COUNTRIES

| | Hongkong | Singapore | Malaysia | Thailand | Indonesia | Philippines | Japan | Taiwan | South Korea |
|---|---|---|---|---|---|---|---|---|---|
| **Economic Growth % (real)** | | | | | | | | | |
| 1982 | 2.4% | 6% | 4.6% | 4.5% | 2.5% | 2.6% | 3.1% | 3.8% | 6% |
| 1983 (1) | 4.0% | 6% | 5% | 5.5% | 3.5% | 2.9% | 3.4% | 5.5% | 7.5% |
| **International Reserves (5)** | | | | | | | | | |
| Latest | n.a | US$8.81b (Mar.) | US$4.06b (May) | US$1.76b (June) | US$2.55b (May) | US$1.69b (June) | US$25.07b (June) | US$10b (Dec.) | US$2.01b (June) |
| Year ago | n.a | US$7.36b | US$3.31b | US$1.51b | US$4.48b | US$2.02b | US$25.43b | n.a. | US$2.56b |
| **Trade Balance (total merchandise)** | | | | | | | | | |
| Latest 3 months | -HK$4.59b (April-June) | -S$3.57b (April-June) | M$1.36b(4) (Dec.-Feb.) | -Baht 17.66b (Jan.-Mar.) | +US$3.23b (Oct.-Dec.) | -US$0.65b (Jan.-Mar.) | +US$5.74b(6) (April-June) | +US$1.84b (April-June) | US$0.76b (Oct.-Dec.) |
| Previous 3 months | -HK$4.36b | -S$3.69b | M$0.86b | -Baht 12.47b | +US$2.24b | -US$1.49b | +US$1.88b | +US$0.49b | -US$0.37b |
| Year ago | -HK$4.21b | -S$3.24b | M$0.63b | -Baht 2.97b | +US$3.49b | -US$0.67b | +US$2.64b | +US$0.67b | US$1.28b |
| **Exports (7)** | | | | | | | | | |
| Latest 3 months | HK$37.35b | S$11.80b | M$5.36b | Baht 36.99b | US$4.66b | US$1.35b | US$36.11b | US$6.45b | US$5.63b |
| % change previous 3 months | +25.42% | +11.33% | 7.25% | +4.98% | -0.78% | -40.2% | +8.6% | +26.5% | +1.7% |
| % change year ago | +19.92% | +0.50% | -5.84% | -17.18% | -16.99% | +6.1% | +1.4% | +12.4% | +1.1% |
| **Imports (8)** | | | | | | | | | |
| Latest 3 months | HK$41.95b | S$15.37b | M$6.72b | Baht 54.65b | US$1.43b | US$2.00b | US$30.37b | US$4.61b | US$6.39b |
| % change previous 3 months | +22.86% | +7.60% | -1.15% | +14.49% | 40.04% | -46.6% | -3.1% | -1.8% | +5% |
| % change year ago | +18.64% | +2.58% | -18.03% | +14.74% | 32.42% | +3.1% | -7.9% | 9.0% | -6.6% |
| **Consumer Prices** | | | | | | | | | |
| Base | Oct. 79-Sept. 80 = 100(2) | July 77-May 78 = 100 | 1980 = 100 | 1976 = 100 | 1977-78 = 100 | 1978 = 100 | 1980 = 100 | 1976 = 100 | 1980 = 100(10) |
| Latest 3 months index average | 141.3 | 130.4 | 119.2 | 185.7 | 206.72 | 189.3 | 109.6 | 183.61 | 131.6 |
| | (April-June) | (May-July) | (Jan.-Mar.) | (Mar.-May) | (Jan.-Mar.) | (Feb.-April) | (Mar.-May) | (Mar.-May) | (Oct.-Dec.) |
| % change previous 3 months | +2.61% | Nil | +1.19% | +1.53% | +5.06% | +2.2% | +1.1% | +1.5% | +0.2% |
| % change year ago | +9.79% | +1.32% | +4.29% | +3.13% | +9.34% | +7.1% | +2.3% | +4.3% | +4.3% |
| **Money Supply (3)** | | | | | | | | | |
| Latest | HK$121.61b (June) | S$23.17b (May) | M$38.31b (Jan.) | Baht 420.61b (Mar.) | Rps 11.08b (Dec.) | P64.323m (Dec.) | ¥249.301b (May) | NT$1.526.5b (May) | Won 20.046b (Dec.) |
| % change previous month | +1.27% | -0.29% | -3.62% | +2.07% | -0.30% | -10.49% | +0.7% | +2.5% | +4.1% |
| % change year ago | +14.86% | +17.93% | +6.73% | +25.81% | +14.1% | +16.04% | +7.5% | +27.5% | +27.8% |

(1) Official and other estimates except for Singapore and Taiwan (2) Consumer Price Index A (3) M2 or currency plus bank deposits. Hongkong figures for 1982 onwards include NCDs (4) Peninsular Malaysia only (5) IMF definition of reserves minus gold
(6) Customs basis (7) fob (8) cif (9) Based on letters of credit with Bank Indonesia (10) Base changed as from July 1982
Source: Official Statistics

# LETTER FROM WEST BERLIN

A current joke in West Berlin has a serious undertone. It tells of one foreigner asking another what he thinks of living in the divided city. The reply is: "Well, it's all right . . . except that there are too many Germans."

The serious side is that West Berlin has a huge concentration of foreigners, with the Turkish population alone touching a staggering 125,000 out of a total of fewer than 2 million residents. Indeed, nowhere in Europe is the juxtaposition of two contrasting cultures — the Oriental and the Teutonic — so sharp as here.

With unemployment increasing in West Germany and with few signs of recovery in sight, the mood of the people has turned against the foreign workers whose presence here is being increasingly seen as a threat to the jobs of the local workers. There is not a single day when the question of foreigners is not discussed in the media or parliament.

*Muslims at prayer in a makeshift mosque . . .*

Twenty years ago, at the height of the West German economic "miracle," the foreign guest worker was considered an indispensable tool in achieving the nation's ambitious industrial-development targets. However, an over-saturated labour market today has underscored the problem of finding work for a large redundant alien labour force.

Average unemployment figures for 1983 have been predicted at 2.4 million, which will include some 300,000 foreign workers; out of these, some 120,000 Turks are expected to collect dole. Big companies like Ford, Volkswagen, Mannesmann and others have retrenched many of their workers, with many alien heads to roll first. Unemployed foreigners — mainly Turks, Portuguese and Yugoslavs — are looked upon as a liability when it comes to paying them unemployment and social benefits.

Asian workers are relatively few in number. India, Sri Lanka, the Philippines and South Korea have provided nurses and doctors, and most of these continue to work because of the inadequate number of local skilled workers in the health sector. Nevertheless, projections by the Labour Office in Nuremberg reflect that sooner or later this group of workers will have to be reduced further in view of the growing number of local people acquiring skills in these professions.

Including families, there are some 23,000 immigrants from India, 22,000 from Pakistan, 12,000 from the Philippines, 8,000 from South Korea and the same number from Sri Lanka. There is also a large number of illegal residents from these countries who are not officially registered with West German immigration authorities, but their number is dwindling rapidly because of a growing number of arrests and deportations of illegal residents in the country.

One problem is the number of so-called economic refugees — South Asians who have claimed political asylum on grounds of persecution at home, but who are widely suspected of wanting to come here simply for a better life. The large number of these refugees in the late 1970s led to visa requirements being introduced for all the countries of South Asia. The system of giving social assistance to the refugees was almost entirely axed, making it extremely difficult for the potential refugee to stay in this country.

*Asian children at an international school: rightwing backlash.* PHOTOS: DPA

Applicants for asylum are also subject to working restrictions for the first two years of their stay. Moreover, the asylum-seeker is not allowed to move freely out of the limits of the jurisdiction in which he has applied for asylum. But even this is not enough for some rightwing extremist groups. There has been an increase in the support received by these groups in big cities such as Kiel, Hamburg, Frankfurt and Stuttgart, though such support is negligible compared to that for the established political parties. Isolated incidents of violence, such as a bomb attack on a home occupied by Vietnamese boat people in Hamburg, have been reported.

And now there is talk not merely of checking the influx of foreigners; the emphasis has now shifted to repatriating them to their native countries. In June the Bonn cabinet approved a draft bill, offering premiums to foreigners willing to leave the country permanently. Labour Minister Norbert Blüm stated that this bill, which will be "strictly on a voluntary basis," will provide that each breadwinning member of an alien family is given some Dm 10,500 (US$3,900) by way of premium and an additional Dm 1,500 for every child in the family.

This bill, which is due to become law in October and will initially run for a year until the end of September 1984, is aimed primarily at workers from Yugoslavia, South Korea, Morocco, Portugal, Spain, Tunisia and Turkey, but other nationalities are also expected to avail themselves of the premiums. Blüm envisages that some 7,000 foreigners will leave the country in 1983 and another 12,000 in 1984.

The public reaction against foreigners has unnerved many alien families who are suddenly faced with the prospect of being smoked out by what some describe as "legal tear-gas." Church organisations acting on behalf of alien workers have also expressed their dismay over bureaucratic high-handedness. Salim Haidari, an Afghan refugee who arrived in this country after an odyssey through several others, perhaps summed up the feeling of many when he said: "They took me in for a few months . . . now they would like to throw me out. I know I am not wanted here, but where else can I go? Would they do the same to a white refugee coming from East Germany?"

—MANIK MEHTA

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# The Giant Panda needs your help to survive

ONCE every eighty to a hundred years the bamboo forests in China's Sichuan Province, burst into flower and then die off. And that's bad news for the Giant Panda, which depends for its survival on huge amounts of bamboo.

But that's just one of the problems facing the Panda.

To ensure that it has a future it is vital to preserve the complex ecosystem in which it lives, to carry out research into its dietary needs and investigate possible alternatives, to discover the reasons for its low reproduction rate, to study the problem of internal parasites – all these factors and many more which threaten its survival.

Recognition of the urgent need to solve these and other problems has resulted in a unique and historic partnership between WWF and the People's Republic of China.

WWF has agreed to contribute US$1,000,000 towards a total of about US$3,000,000 needed by the Chinese Government to mount a major Panda Conservation Programme. This includes construction of a research and conservation centre in the largest of the Panda reserves – Wolong Natural Reserve in Sichuan Province.

A team from WWF, led by the distinguished ecologist Dr. G. Schaller, is already at work in Wolong together with top Chinese scientists under the leadership of Professor Hu Jinchu.

The Giant Panda is an endangered animal. It is also the symbol of WWF's worldwide conservation efforts to save life on earth.

But WWF needs money – your money.

*Please send contributions to the WWF National Organisation in your country or direct to*

**WWF International, 1196 Gland, Switzerland.**

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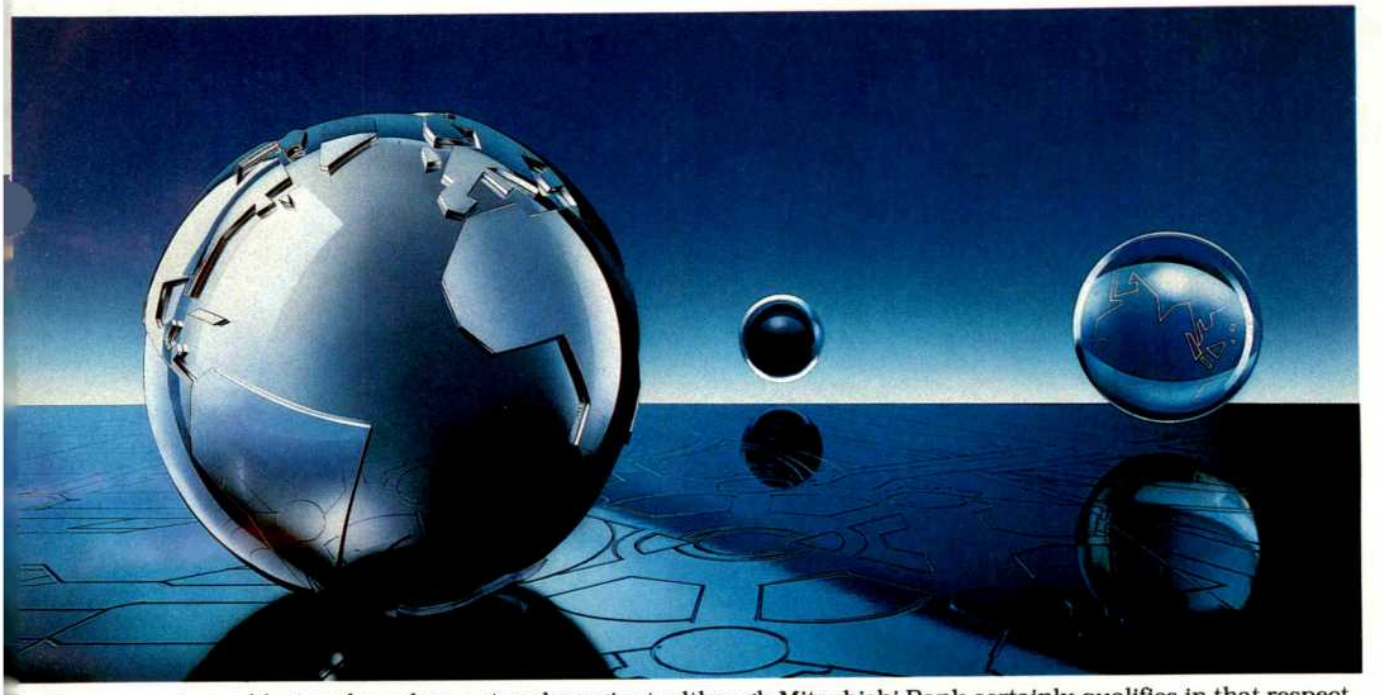
# Giant steps

## It takes one to make one



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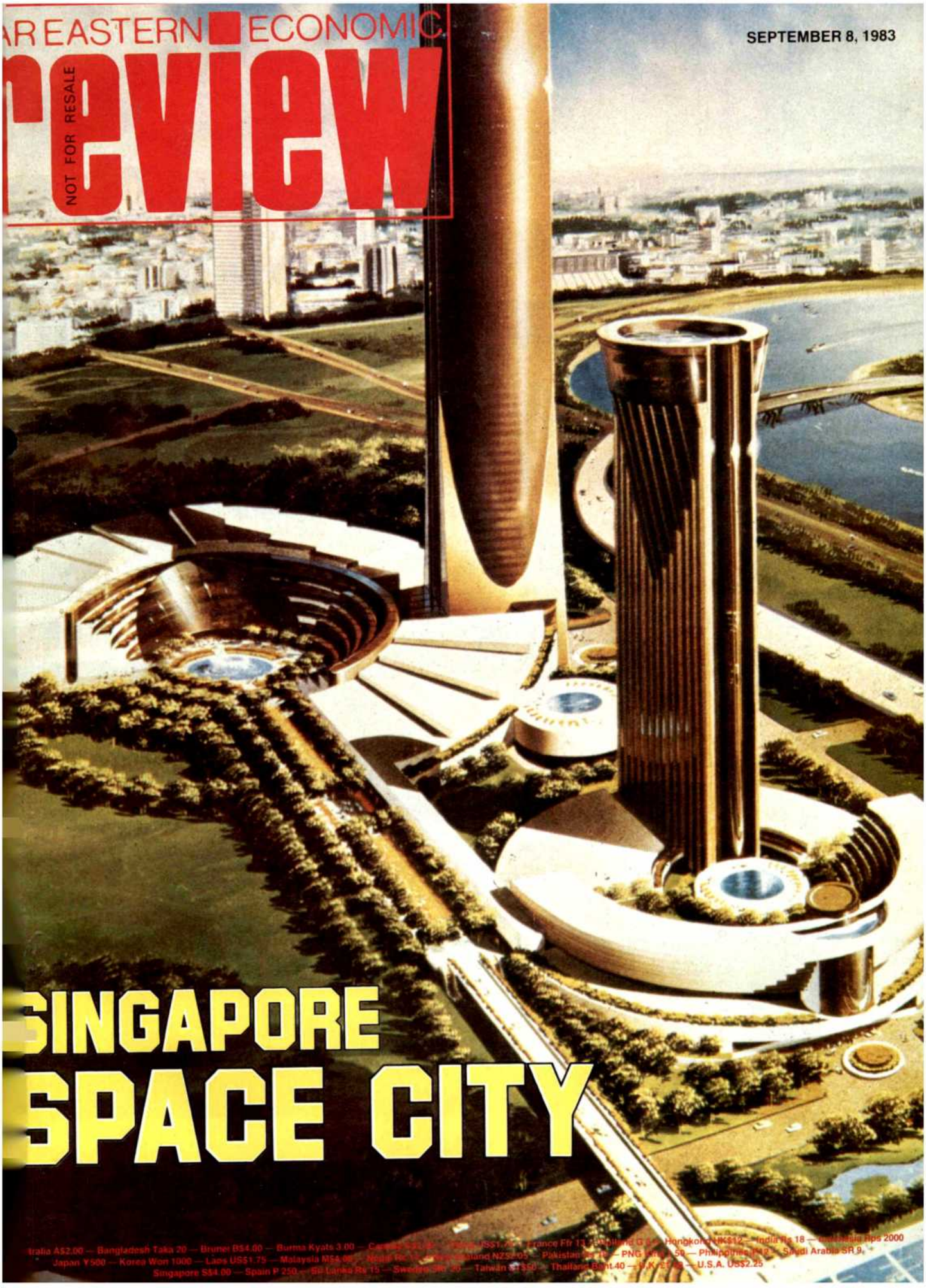
AR EASTERN ECONOMIC
review
NOT FOR RESALE
SEPTEMBER 8, 1983



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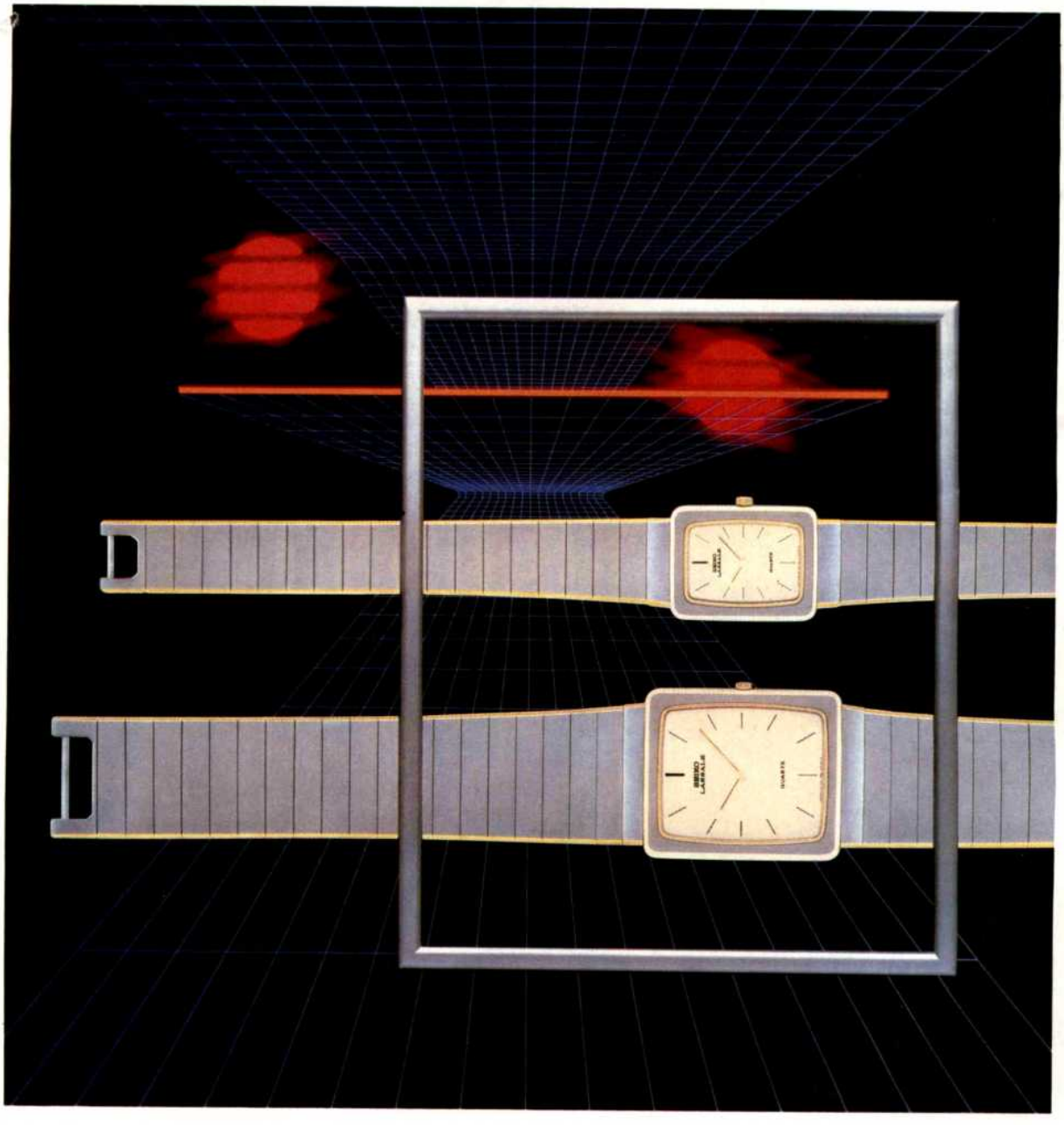

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# LETTERS TO THE EDITOR

## 'Crimes' and punishment

The group of 13 charged in Ho Chi Minh City with attempting to overthrow the government included seven Jesuit priests, not five as your report stated [**The Week**, REVIEW, Aug. 11]. This long-awaited trial took place on June 29-30. The six other defendants were four men and a woman, all of whom seem to be lay people, and a Dominican priest, Fr Albert Nguyen van Hoa.

The accusations are a real litany of "crimes" of the old-style Russian vintage: illegally publishing a tabloid "to incite Roman Catholic believers to rise up against the administration"; contacting reactionary organisations abroad and receiving money and gold from them; concealing "cryptographic equipment, signal communications and printing facilities," and so on.

The priests and lay people had been held without trial since their arrest at the Dac Lo church in December 1980 and January 1981.

At the end of the two-day hearing Fr Joseph Nguyen Cong Doan, regional superior of the Jesuits in Vietnam and a distinguished Bible scholar working on a Vietnamese version of the Bible, was given a 12-year sentence. His assistant, Fr Joseph Do Quang Chinh, was sentenced to five years' jail, while Peter Phan Huu Lai, an unordained Jesuit who lectured in linguistics at Saigon University, was sentenced to four years. Two other priests, Fr Joseph Linh and Fr Joseph Quy, were given periods of "surveillance," to be followed by periods of "challenge" (thu thach). The seventh Jesuit in the group, Fr Roch Trung, was "warned" and released.

Amnesty International, the London-based human-rights organisation, adopted the eight priests as "prisoners of conscience" some considerable time ago, and is now working for their early release. Accounts of the trial do not say whether the accused were given an opportunity to defend themselves against the charges before being sentenced. As no foreign newsmen or other independent observers attended, reports of alleged "confessions" must therefore be treated with great reserve.

*Hongkong* BERNARD J. SHIELDS

## Swire, esquire

The Swire group profile [REVIEW, Aug. 4] made interesting reading. As Christopher Wood pointed out, the able performance of the Swire management stems in part from the company's special culture. He was right to credit John Atkinson Swire and Sir Adrian Swire (as well as their father, the late J. K. Swire) with building the firm into what it is today. However, I was struck by how the current business still expresses the strong personality of its 19th-century founder, John Samuel Swire.

In 1974, John Swire & Sons was kind enough to permit me to read its 19th-century business correspondence stored in London: thousands of letters have been preserved from the first four decades of the firm's operations. Through them all the forceful but conservative character of the founder stands out — he was not a simple-minded buccaneering taipan. And, despite a spirit of competition with the Keswicks and Jardine, John Samuel Swire felt that he could not push too far too fast — even if it meant staying in the shadow of his rivals.

Sometimes he despaired of his company ever being a match to Jardine. In a letter of February 11, 1881, he wrote:

> 'JMCo., thro' old standing, social and personal influence, will gradually become managers of all joint stock Cos. that are monopolies in China, and where there are Competing Concerns, with the exception of Bks and Ins^e. Cos., they will endeavor to bring about an amalgamation in their favor. It cannot be helped. We never could have got

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the position. Trade jealousies would have prevented any such arrangement. The inevitable is that JMCo. will before long tower above all Competition, but we should be able to play a respectable second fiddle and that is the most we can hope for.'

As your article points out, the ability of Swire's descendants has lifted the firm to heights John Samuel Swire had little hope of scaling. Or, perhaps, Jardine may be said to have fallen. At all events, chairman-designate Simon Keswick might now be well advised to adopt John Samuel Swire's motto for doing business in the Far East (given in a letter of 1884): "Avoid trusting Celestials or Terrestrials, there is no end of insolvency in China."

THOMAS CHURCHILL WARD

*Boston, Mass*

## The sole solution

Darryl Bullen's letter (REVIEW, July 21) reflects an ignorance of current Cambodian political realities. One of those realities is that Vietnam's invasion and occupation of Cambodia have been unequivocally condemned by the rest of the world, and the Heng Samrin regime, installed and maintained in power through force of arms by Vietnam, has been denied the United Nations Cambodia seat for four consecutive years by a clear majority of the members.

Another reality is that for four consecutive years, Vietnam, a member-state of that world body, refuses to abide by its resolutions calling for, among other things, a withdrawal of its troops from Cambodia. Bullen thinks that only when diplomatic and military support for the Coalition Government of Democratic Kampuchea is stopped will it be possible for Vietnamese troops to leave Cambodia.

Little does he realise that Vietnam will never leave Cambodia of its own accord and that all the rationales given for the presence of its troops in Cambodia are only excuses to disguise its real intention, which is to colonise Cambodia. Indeed, within the past 18 months, Vietnam has moved as many as 400,000 farmers, fishermen and traders in various areas of Cambodia on top of the 180,000 troops already inside the country.

Bullen lightly dismisses the non-communist resistance forces of the coalition's prime minister, Son Sann, as unworthy of any credibility. But the fact that we have survived at all for almost five years with little help from the outside is the best testimony of our credibility and the support we enjoy inside Cambodia.

The Khmer People's National Liberation Front (KPNLF) disagrees with Bullen that recognising the Samrin regime is the solution to Cambodia's ills. A solution to Cambodia's afflictions must be sought within the framework of the UN-sponsored International Conference on Kampuchea and various UN resolutions on Cambodia.

VOA HUY KANTHOUL
Minister Counsellor
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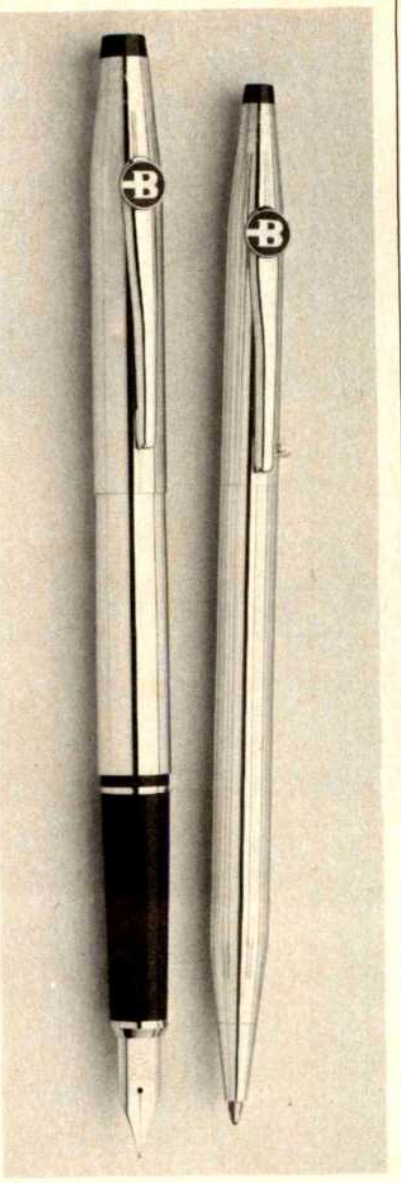
KPNLF Representation Office

*New York*

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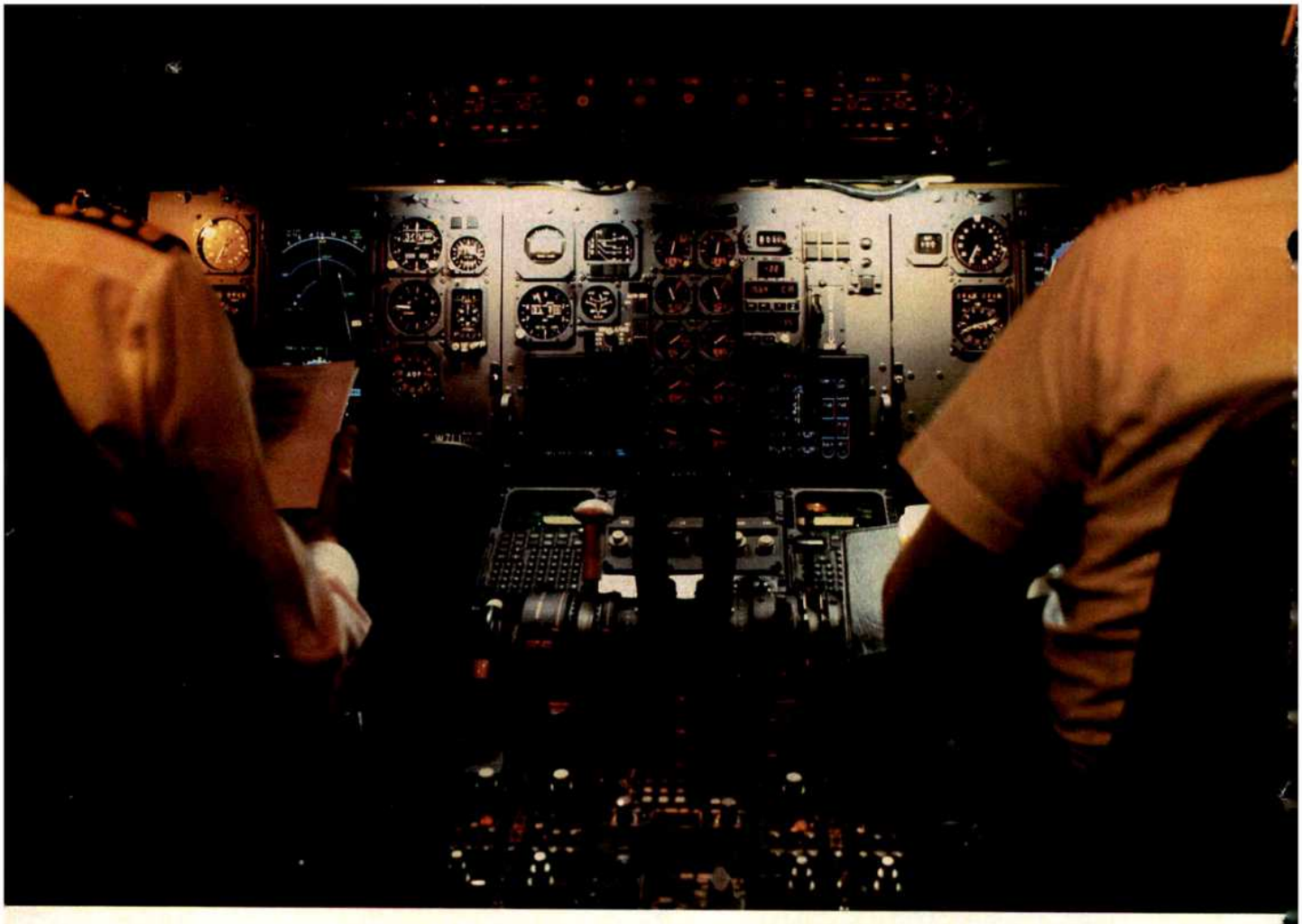
that you may travel its open spaces.'



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